OUTLOOK FOR EARLY 1959 MARKET

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

DECEMBER 20, 1958 85 CENTS

CLIFFORD F. HOOD

Portrait by Fabian Bachrach

"U. S. Steel employees invest more than $2,400,000 a month in U. S. Savings Bonds"

"Those enrolled in the Payroll Savings Plan for U.S. Savings Bonds alone save the equivalent of one and one half $25 bonds a month.

"For those investing in U.S. Savings Bonds under the Savings Fund Plan, each is averaging more than one $25 bond per month.

"The response of our employees to the Payroll Savings Plan for Savings Bonds is evidence of their faith in the nation. We are proud of their record in saving systematically in E Bonds, thus participating in a program of planned thrift while helping to build America's power to keep the peace."

CLIFFORD F. HOOD, ***President and Chairman, Executive Committee, United States Steel Corp.***

Today there are more Payroll savers than ever before in peacetime. If employee participation in your Payroll Savings Plan is less than 50% . . . or if your employees now do not have the opportunity to build for their future through the systematic purchase of U.S. Savings Bonds, give your State Director an opportunity to help. Look him up in your phone book. Or write: Savings Bonds Division, U. S. Treasury Dept., Washington, D. C.

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CONTENTS

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To Our Friends And Subscribers

It is the love of little children that illuminates the Christmas Spirit and renews our faith in the future. They are the Future!

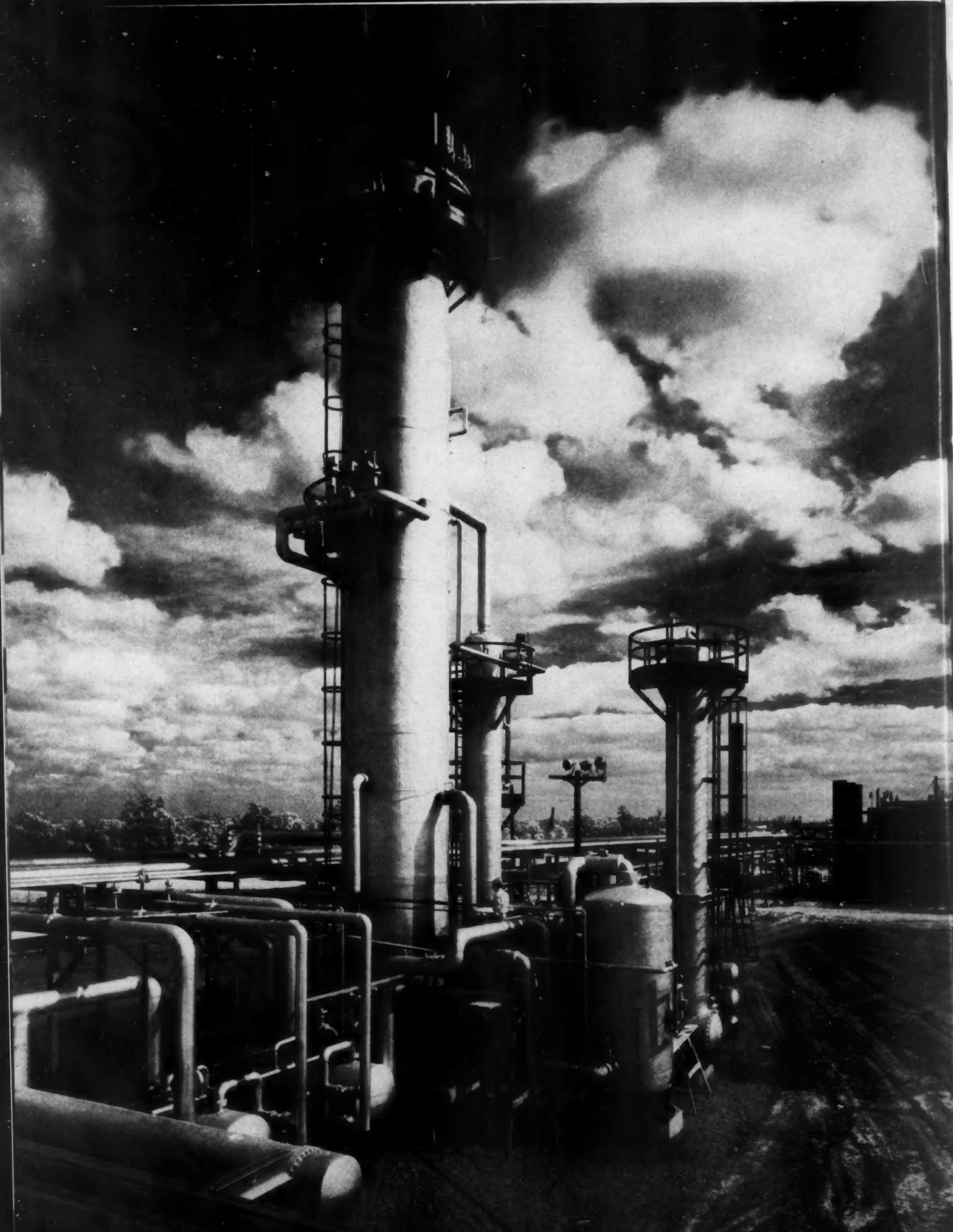
And as we look into their adorable faces and the flood of emotion permeates our being, we thank God for his goodness to us, — for having placed in our hands and minds the capacity to make our dear ones safe and secure, without the fears of existence that are besetting so many millions around the world.

And somehow — there is infinite inspiration in giving thanks to the Almighty — for it mellows our soul — and makes us want to reach out and take the homeless and suffering to our hearts and share our blessings with them — we have so much!

And the surge of confidence we feel as we renew our spirit sends us forth to meet the challenge of tomorrow with strength and courage. We know — as the night follows the day — that with faith and determination we can overcome the obstacles that confront us as we move along uncharted paths into a new world. We have experienced more crucial days and been less prepared — yet we have won. We will win tomorrow too!

To you, our friends and subscribers, whom we are happy to serve in the year ahead, with all our hearts we wish you well in your undertakings and a full measure of happiness and contentment.

C. G. Wyckoff
Publisher



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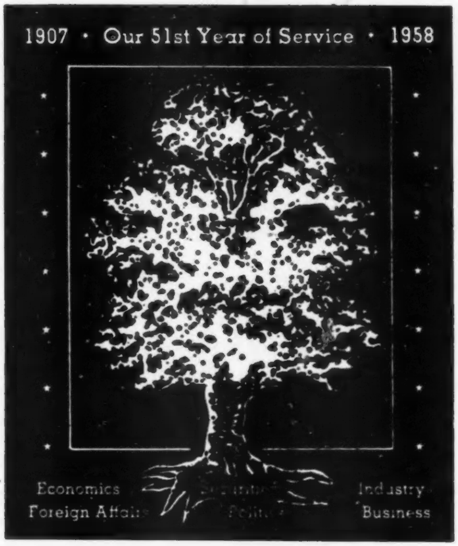
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

TAX BOOST — OR SPENDING CUT? . . . That is the answer to our current problems — and future stability too.

Certainly it will have to be one of these, and most likely it will be both, since our problems are deep-seated and have evolved over the years until they have distorted our national economy.

The imbalance in our budget is due to numerous elements, but primarily to (1) the high cost of labor, which has rocketed prices to astronomical levels for everything the government has to buy whether it be products, raw materials or services — (2) the cost of paternalism toward the states — (3) the extent of government in business — (4) costly duplication of scientific effort among the services and the various branches of our government — and (5) the fact that *those who set the appropriations are the same individuals who do the spending.*

It is clear the effort to make the changes will at best come hard, and in many instances will be well nigh interminable due to pressure from all sides — making budget cutting extremely difficult and new taxes inevitable.

As always the people will pay for their lack of interest in the political scene, as well as their failure to stand up and be counted as opposing abuses and inequities whether they be in government or in their own labor unions, so largely responsible for increased prices and higher taxes Capitalizing on this apathy, the power of the labor leaders has reached the zenith of dictatorship, which enables them to pull the strings that make the workers and all citizens of the United States dance to the tunes they play, both in industry — our economy — and in politics.

That they arbitrarily strike when it suits their purpose — and select the most vulnerable moment — was clearly shown when they chose the holiday period to make excessive demands on the airlines, with no thought or consideration for the thousands of people homeward bound and when other forms of transportation would be difficult or impossible to secure.

In New York City a strike that started with a few newspaper distributors has thrown thousands of people out of work at the holiday season — deprived the city of its news during a time of international crisis — disorganizing merchandizing of millions of dollars worth of products for Christmas sale — confused and handicapped the shoppers — and destroyed the seasonal rise in advertising revenue for the newspapers, — And, in general, causing a severe loss to the city, prepared for holiday crowds and visitors in its various activities — restaurants — theatres. It will cut the tax revenue too, at a time when the city is running at a deficit and grasping for new tax sources.

It was not intended that unions should have such supreme power, which trespasses on public interests. Citizens *(Please turn to page 322)*

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

As I See It!

By Charles Benedict

IS RUSSIA MOVING TOWARD ALL-OUT WAR?

FOR MANY years past, up to recently, I believed that the Soviet Union was planning to win her struggle with the United States without risking World War III. But I am now beginning to change my mind about it — and I will tell you why.

In the first place, the element of time is no longer on the side of the Soviet Union. Already the growing strength of Red China is posing a menace to Russian supremacy in the communist world — and in the not too distant future. This constitutes a threat of paramount importance to Moscow, for it is essential to Russian power-politics that she continue to maintain her leadership as the idealogical and political fountainhead. It is the only way she can hold her satellites together and sustain her prestige among the neutral countries — and the West as well.

In the second place, the first sign of deterioration has already been seen in her relationship with Red China. Peiping, by inaugurating its program of "Communes", is setting in motion a movement to "out-Marx" Moscow. Further weakening of the ties between these two leading communist states might be dangerous for the Soviet Union, particularly when the vast Chinese population, frustrated by its need for more elbow room, seeks to expand into the adjacent territories occupied by Russia, where the population is composed of various races of similar origin. Much could be made of this situation through the devious practices of the oriental mind in this ancient part of the world.

Russia therefore, seeing the handwriting on the wall, must either be able to cut Red China down to size by finding a way to destroy her potentials for dominant power (but that time is not yet) — or decide on a plan to divide the world into two spheres of influence that will enable them to co-exist peaceably, one under Red China and the other under Russian domination.

The recent moves made in various spots around the world would seem to indicate that Russia believes co-existence to be the answer — now — and that its goal of world power can be best accomplished through the destruction of the West before Red China gains momentum as a rival to Russian pretentions.

Soviet Preparedness

Already, one step after another has been taken to test our power to wage war — our psychological responses — our resiliency and initiative — and the strength of our relationship with the rest of the free world.

Since the successful launching of Sputnik I, Khrushchev has again and again boldly asserted that Russia's position was one of military supremacy, and by threat or coercion of one kind or another has sought to secure her frontiers, and has been tenacious in his attempts to destroy the defensive alliance of NATO, reiterating on every occasion, demands that we give up our European bases, in order to destroy our power to retaliate under attack of Russian aggresion.

Under the hammer blows of Soviet propaganda, the European defense community began to wobble, weakening the loyalties and purpose of western unity, and the situation deteriorated further after the Suez attack.

Cutting the Oil Line

Russia then took a giant step toward weakening the Western resolve by fostering the Arab movement, which with shrewd political engineering has been manipulated to suit her purpose — as a preliminary step to put the Kremlin in a position where it could, when desirable, block Western Europe from the source of the vast oil supply in the Middle East, upon which their industrial and defense machinery depends. (Moscow has not forgotten that the lack of this precious black gold was in a large measure responsible for the destruction of Hitler's mechanized military machine.)

Then Russia took another realistic step in relation to the satellite states, so necessary to to the smooth working of her plans in successfully waging all-out war.

Weakening the Satellites

First, Czechoslovakia, the experienced maker of arms — the arsenal for Soviet military needs — was made secure by purging the dissident leadership and breaking the spirit of the rest of the population

— uprooting and deporting the people to slow extermination in the slave labor camps in Siberia — and resettling the country with a Russian population.

The revolt in Hungary was crushed mercilessly, the leaders were executed and the youth dispersed to the wilds of the arctic vastness, leaving only weakness and terror at home.

Making Poland Her Ally

But the Kremlin cultivated Poland, whose strategic position as a buffer state between Russia and East Germany was of fundamental importance to her plan, which is to extend her hegemony along the North Sea to the Channel, in order to make the Baltic her own.

It is clear that Khrushchev's action on Poland was a double play — a subtle and ingenious technique that enabled him on the one hand to assure Gomulka that he could count on Russia to support the continued possession of territory ceded to Poland after the war, and, on the other hand, to get his foot in the door toward eventual conquest of West Germany, with its high level of industrialization and having the best financial and organizational brains in Europe.

Toward Control of Northern Europe

In one fell swoop, Nikita Khrushchev sought to control Northern Europe to the Channel — and by neutralizing the area — present Britain and the rest of Free Europe with a fait accompli, so that NATO would be destroyed and the United States isolated from the European continent.

And already, before his Berlin campaign, bellicose Khrushchev was demanding neutrality from Sweden and Norway, destroying the Finnish government under the hammer blows of economic reprisal for excluding from their Cabinet the Finnish communists who had recently won 50 seats out of 200 in the July elections. With a similar technique he had caused the premier of Iceland to resign a short time before.

The pattern is clear, the groundwork is being laid for all-out war. The conference of the NATO powers in Paris will give the answer to unity of the West. If they let down their guard Khrushchev will not have to fight to get Berlin. Conquest without a hot war will have been made easy for him — and the cold war along economic lines will be stepped up to disrupt the markets of the world in one product after another, to be followed by commercial agreements to destroy the economic stability of countries with whom they make these pacts.

Is the West going to make it easy for Russia to take them over? We have everything to lose and nothing to gain by giving way. Besides, we can, by united effort, halt their further advance into Europe, where it seems clear they are trying to win by threats and bravado.

We cannot let them have Berlin, and I believe that they will back down if they face a united and determined stand.

Whether war can be averted or postponed eventually will in a large measure depend on the qualities of mind and character of our leadership, and the degree to which the Kremlin is impressed with our courage and resourcefulness. The areas of maneuverability are narrowing for us, unless we take the initiative and the kind of action that will tell Khrushchev we mean business, instead of continuing to try to guess what Khrushchev is up to next and what the Russians will or will not do. They are in the process of preparing to fight. The next step is up to us.

One hotfoot after another

Looking Toward Alaska

Where will they strike, when and if they do? Despite all Russian preparedness in every place else, I believe that the shortest route to the heart of our country is through Alaska, and that that is where Russia would strike first. It is the place where we should build up our strongest defense, because it is also the shortest route from which we can launch our most devastating attack against the Soviet Union — through the top of the world.

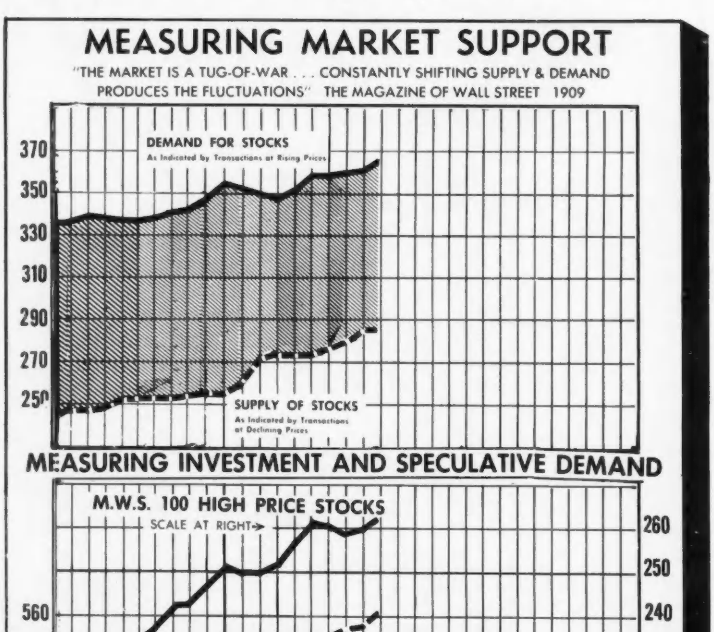
Rationalization of the Stock Market Looking to Early 1959

In a selective performance largely influenced by professional operations and small traders, the market remains moderately below its mid-November high point. Absence of year-end strength would be unusual; but we take a cautious view of later trend possibilities in the early 1959 months.

By A. T. MILLER

For a quick over-all view, here is what the market has been doing: (1) a sharp, brief sell-off to November 25 and a vigorous but incomplete rebound to December 1, as detailed in our last previous analysis; (2) roughly a week of narrow movement thereafter; (3) a renewed upside effort, mainly in the Tuesday-Wednesday sessions last week, which petered out before the week end.

For the industrial average, last week's best level was about 2½ points short of the November peak. The comparison for rails is relatively poorer, with the average so far failing even to extend its December 1 rally level. Thanks to the response of natural gas stocks to the favorable Supreme Court ruling in the so-called Memphis Case, concerning the vitally important rate-making procedure for pipeline companies, the Dow utility average (containing four gas stocks) attained a new postwar high on a moderate gain.



Cross-Currents Numerous

It remains, of course, a market of cross-currents, featured by stock-group rotation and diverse gyrations in individual stocks. Compared with earlier stages of the advance, conservative investment demand is less of a factor; speculative activity (professional and amateur) much enlarged.

So far as the industrial and rail averages are concerned, it would be premature to try to read any particular significance into the moderate easing tendencies which developed toward the end of last week. There is still time at this writing for the normal year-end upward slant to assert itself; and little time meanwhile for deterioration of the market position in December.

While we are not unduly impressed by past records, it is a fact that the market direction has been consistently upward from just before Christmas at least into early January. It may be of some interest to note that January as a whole has been a plus month in a majority of years; but that the reverse has been so of February.

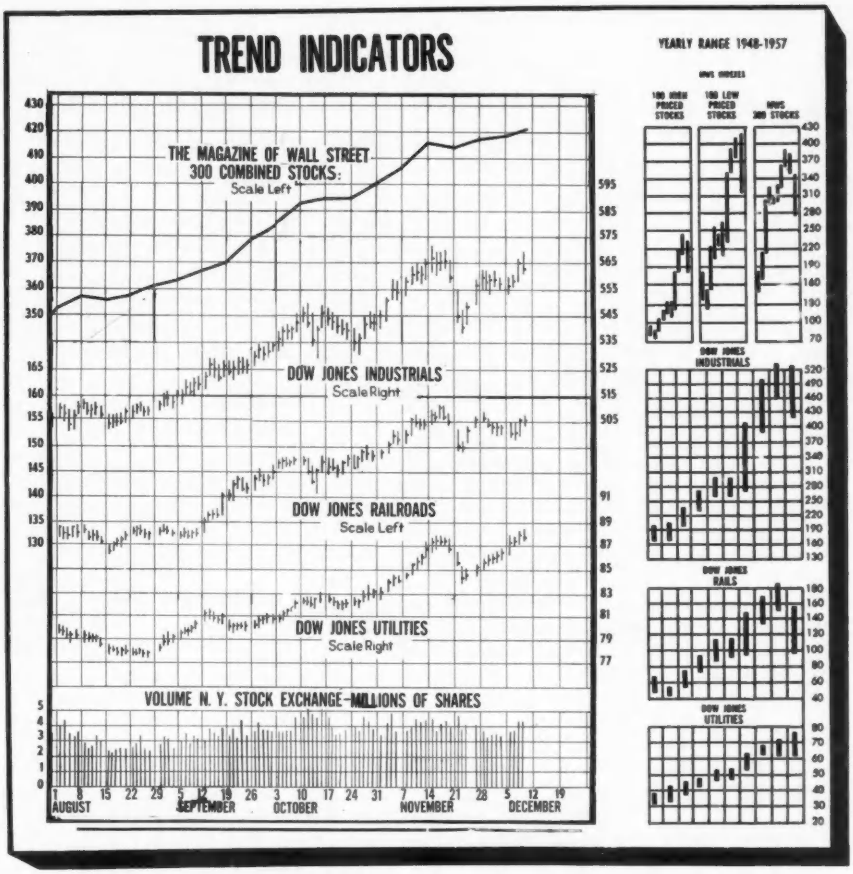
Although of uncommonly brief duration, the recent reaction (a maximum of about 33 points in the industrial index) probably was enough short-term technical correction. That interpretation, plus seasonal considerations, argues against another stiff shakedown for at least a while.

However, our thinking allows for a fairly extended phase of irregularity and consolidation ahead, possibly including a sell-off which could test the

November low (around 540 for the industrial average) by February or earlier.

We have had only a momentary technical correcion: little or no "phychological" correction. At this point, price-earnings ratios are still extremely high, as measured by all past standards, dividend yields unusually low. Excessive speculation in cats and dogs is continuing. The market is still discounting expected recovery in depressed earnings — and further growth of "growth-stock" earnings — on an uncommonly optimistic basis.

On the part of those with a vested interest in a strong and active market, especially most brokers, "inevitable" inflation is still being touted as ample justification for a "new era" in stock prices. The "temporary" stability in the value of the dollar and the chances that it may continue through much or all of 1959 are ignored. Assuming a renewal of creeping price inflation ahead, the market has outrun it for some time to come. Assuming more dynamic inflation ahead, it does not seem to occur to people that corporate profits would be squeezed thereby — whether before or after the probable application of direct Federal controls to hold prices in check.



So what is needed, and is probably somewhere ahead, is not recurrent technical dips in an intoxicated market, like a drunk staying off the bottle for short intervals; but some sober second thought, some real correction of excess, some waiting for the future to live up at least partly, to the high hopes heretofore and currently reflected in the market.

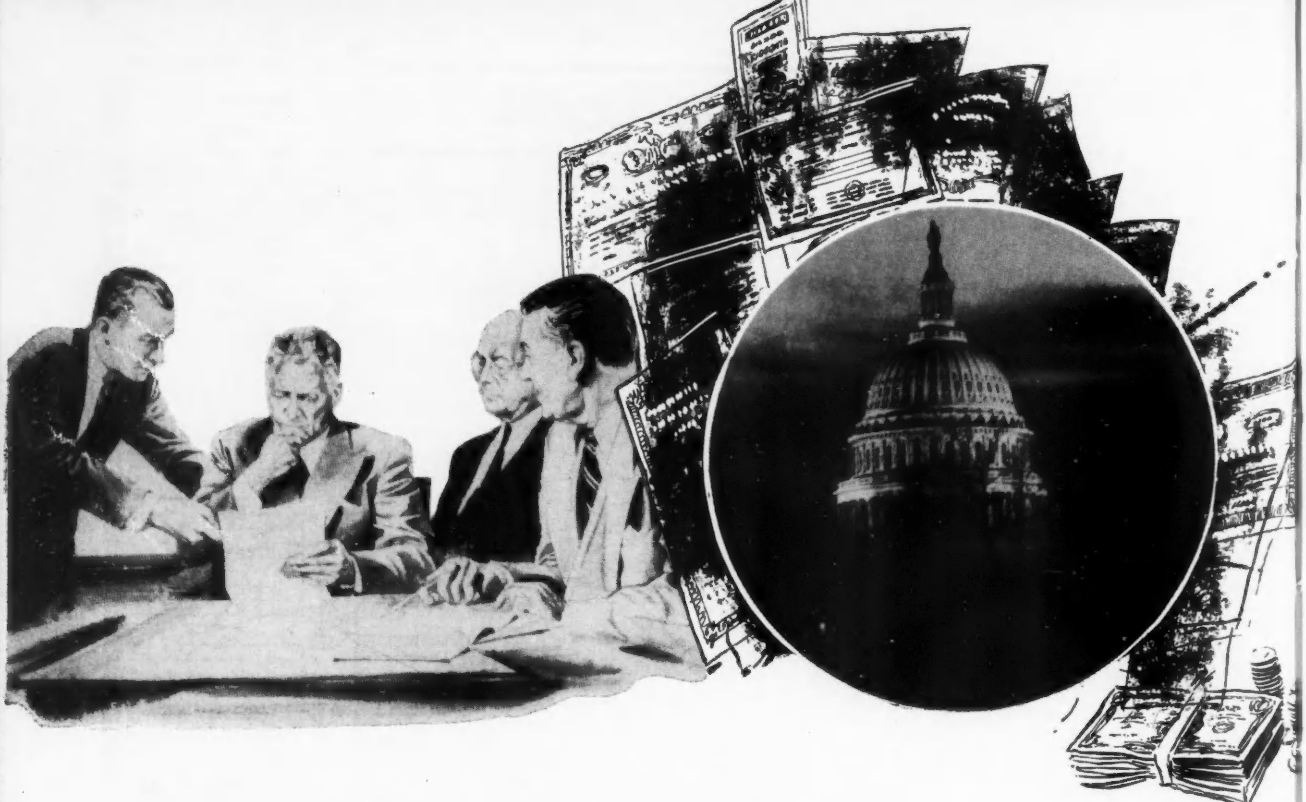
We have seen excess before and the familiar rationalization of it. The "New Era" bullishness of 1928-1929, when few foresaw the devastating 1929-1932 crash. The "New Deal" bullishness and inflation psychology of 1936-1937, followed by another depression and bear market. The extreme cat-and-dog speculation of late 1945 and early 1946, for which a heavy penalty was paid by 1947 and more by mid-1949 — when many present bulls were bears.

We will have more to say two weeks hence in our Annual Forecast issue about business prospects for 1959 and the long term, inflation pros and cons, and altered supply-demand factors in the market. Suffice it at this time to say that the relative role of institutional demand in causing the inflation of stock prices has been exaggerated; that of other professional operators and individual speculators has not been sufficiently emphasized.

With full, up-to-date data bearing on these matters never available, we have to rely on partial information and logical surmise. It is pertinent to note that in the 1958 first half, net stock purchases by investment companies were at an annual rate merely equal to that of 1956 and 25% less than in 1957, according to the SEC. But net purchases by "domestic individuals" were up to an annual rate of \$2 billion (over three times the investment-company total); and were 43% above the 1956 rate and 54% above that of 1957. Investment-company buying no doubt has risen since mid-year, despite scattered reports of some recent shifts to caution; but public buying probably has increased more, as suggested by action of low-priced stocks.

Stock Exchange Findings

A sample test on two trading sessions in September, made by the Stock Exchange, showed that turnover accounted for by member firms and floor traders for their own account was little less than that by all "institutions and intermediaries"; and, compared with findings on earlier tests back to 1952, had risen more than turnover generated by institutional funds. The same tests indicated, as compared with earlier tests, a marked increase in individual activity for short-term investment (less than six months) and trading (30 days or less). The party will have to cool down. — Monday, December 15.



Possible Treasury Crisis Looming

As Debt Management Defers Financing Problems

- **The inconsistency of short-term financing**
- **Impact of higher rates when new financing competes commercial borrowing**
- **What is the solution**

by Michael Stephen

THE Treasury's program of covering its $12 billion budget deficit by resort to short-term "floating debt" finance threatens to create next year a debt management crisis worse than the 1957 squeeze which produced a Senatorial investigation. Yet surprisingly few objections have been heard, even from ordinarily conservative financial quarters. On the contrary, most people have been impressed by the Treasury's ability to sell almost $12 billion short-term securities for cash in the past five months. The fact that all of this will have to be refinanced next year is being generally ignored.

In part the reliance on short-term issues is a natural aftermath of last summer's drastic decline in the bond market. With long-term investors demoralized, the Treasury's fiscal '59 cash financing in August had to be restricted to 7-month tax anticipation certificates if the needed $3.7 billion was to be successfully raised. Again in October an unsettled bond market dictated that cash borrowing be confined to short-term issues: $2.7 billion 7-month "special" Treasury bills, $1.2 billion 13-month notes and a $1 billion increase in regular 91-day Treasury bill issues.

Thus, up to this point even the most rigid advocate of financial orthodoxy could not object. All the short-term obligations were emergency expedients to raise cash while buying time for the Treasury—time for the bond market to steady out to a point where longer term financing might be attempted.

The trouble is that even *after* the bond market steadied—in late October and November—the Treasury chose to continue financing its deficit at short term. In November the Treasury used June tax anticipation bills to raise $3 billion more cash and refunded $12.2 billion certificates and bonds due in December into 11½ month certificates and 2½ year notes. Furthermore, in announcing terms on its refunding the Treasury revealed that it was planning still further borrowing on bills to raise more

than half of the \$4 to \$4½ billion cash it will need from December through March 1959.

All this even though a distinctly better tone in the bond market had appeared, attracting a large number of offerings from the World Bank and foreign governments—including New Zealand, Panama, Austria and South Africa—as well as from U. S. corporations and municipalities.

New 6-Month Treasury Bills

The Treasury's newest fund raising plan is to pick up some \$2.6 billion over the 13 weeks beginning December 11 by issuing new 182-day (6-month) Treasury bills. Since there are now outstanding 13 weekly issues of 91-day bills (each in the amount of \$1.8 billion) for a total of \$23.4 billion, this will increase the total amount of regular bills to \$26 billion. While this could be accomplished by increasing the cycle of 91-day bill offerings to \$2 billion each, issuance of the new 6-month bills will avoid raising the weekly rollover of 91-day bills to such dimensions and will also provide a new investment medium for 3-6 month money.

Under this new bill borrowing program the Treasury will sell each week \$400 million of the new 6-month bills. Half of the proceeds will cover expenditure needs or bolster the cash balance. The remaining \$200 million a week will be used to reduce 91-day bill offerings from \$1,800 to \$1,600 million.

Treasury officials have expressed hope that the volume of certificates (obligations with an original maturity of one year or less) may be cut back as an offset to the increased volume of bills. But any real steps in this direction will await success in getting the federal budget under control or in putting out longer-term debt issues. In the meantime we are embarking on the risky course of making permanent additions to the national debt in the form of highly liquid, short-term obligations which will have to be placed again every three or six months.

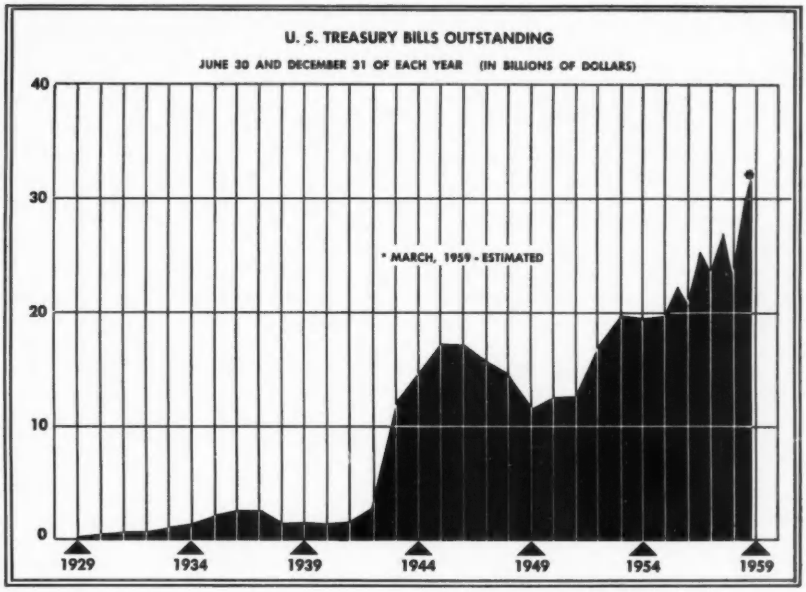
Background on Bills

Following the British example, Congress first authorized Treasury bills on June 17, 1929. The first issue was dated December 17, 1929 and matured 90 days later at the March tax date. Bills were designed to be sold at competitive bidding, permitting the Treasury to get the lowest interest cost consistent with market conditions, and were set to mature at times when the Treasury expected to have excess cash. It was not until 1938, with the public debt constantly growing, that a 13-week cycle of \$100 million weekly issues and maturities was introduced.

Although intended as a stop-gap financing device, Treasury bills soon won a permanent place in the debt. As the chart shows, the volume of bills outstanding rose from \$100 million in 1929 to \$1.3 billion in 1938, holding at that level until 1941 when the Treasury discovered how convenient it was to raise cash by increasing the size of the 13 weekly bill issues. Reflecting war financing needs, the weekly bill offerings were increased from \$100 million in 1941 to \$1.3 billion in 1945 and the volume of bills outstanding rose from \$1.3 billion to \$17.0 billion.

Surplus budget revenue permitted a cutback in the outstanding volume of bills to a postwar low of \$11.5 billion in 1949 but renewed deficits thereafter brought a renewed rise in bill offerings. Now a record \$29.5 billion bills are outstanding, including \$3 billion June tax anticipation bills and \$2.7 billion "special" bills due May 15. By March the new 6-month bills will raise the total near \$32 billion, 320 times the 1929 figure.

This tremendous expansion in Treasury bill issues was done mainly on the basis of a 13-week cycle.



The expansive potential of the new 26-week cycle is even more explosive. The \$400 million issue of 26-week bills will total \$10.4 billion when the cycle is complete. If the weekly issue were to be increased to \$1.8 billion, the size of recent 91-day bill issues, the outstanding total of 182-day bills would rise to \$46.8 billion. And this figure makes no allowance for 91-day bills or tax anticipation issues which might add another \$20 billion to the bill total.

No one says this will happen tomorrow but we have taken the road to bill issues of uncharted dimensions. *The implications of Treasury bill finance need examination before we go any further.*

What's Wrong With Bills

Many government security dealers were highly pleased by the decision to put out more Treasury bills. They derive the largest part of their income from transactions in bills. Corporate treasurers also were pleased by the prospect of a bigger supply of

STRUCTURE OF INTEREST-BEARING FEDERAL DEBT AS OF DECEMBER 31 FOR SELECTED YEARS

(In Billions of Dollars)

	1946	1952	1957	1958e
Savings bonds, notes, etc. red. on dem.	$ 56.5	$ 65.1	$ 52.5	$ 51.7
Treasury bills	17.0	21.7	26.9	29.7
Certificates	30.0	16.7	34.6	36.4
Notes and bonds due within 1 year	7.0	18.5	13.0	6.5
Total due or red. within 1 year	110.5	122.0	127.0	124.3
Notes and bonds due or red. in 1-5 y.	17.2	50.2	56.8	61.3
Total due or red. within 5 years	127.7	172.2	183.2	185.6
Bonds due in 5-10 years	41.6	22.8	11.3	18.7
Bonds due in 10-20 years	20.1	31.1	27.7	25.0
Bonds due after 20 years	43.6	0.0	4.3	7.2
Total public issues	233.0	226.1	227.1	236.5
Special issues to gavt. trust funds	24.6	39.2	45.8	45.1
Total interest-bearing debt	$257.6	$265.3	$272.9	$281.6
Percentage of Total Public Issues				
	1946	1952	1957	1958e
Sav. bonds, notes, etc. red. on dem.	24.2%	28.8%	23.1%	21.9%
Treasury bills	7.3	9.6	11.8	12.6
Certificates	12.9	7.4	15.2	15.4
Notes and bonds due within 1 year	3.0	8.2	5.7	2.7
Total due or red. within 1 year	47.4	54.0	55.9	52.6
Notes and bonds due or red. in 1-5 y.	7.4	22.2	25.0	25.9
Total due or red. within 5 years	54.8	76.2	80.9	78.5
Bonds due in 5-10 years	17.9	10.1	5.0	7.9
Bonds due in 10-20 years	8.6	13.7	12.2	10.6
Bonds due after 20 years	18.7	0.0	1.9	3.0
Total public issues	100.0%	100.0%	100.0%	100.0%

(e) Estimated.

highly liquid securities at yields of 3% or better for the investment of tax reserves and other short-term balances.

Unfortunately, the interests of the Treasury—the seller of bills—are diametrically opposed to the interests of the buyers of bills. The fact is that the Treasury has been forgetting its own interests, and those of the taxpayers, in trying to make the buyers of Treasury bills happy. A simple description of the advantages which bills provide a buyer will point up the disadvantages for the Treasury.

First and foremost, Treasury bills are designed as substitutes for cash. They find only temporary buyers—holders of temporarily idle funds such as corporations, governmental bodies, banks at home and abroad, and a miscellany of buyers who appear when rates are "good." The buyer of bills tends to regard his money as being in a sense the "bank"—the "bank" being any one of 13 or 26 evenly spaced weekly bill issues—with marketability as a way out if the invested funds are needed before the bills mature. The prohibition of interest on demand deposits, the reluctance of banks to compete for time deposits, the legal limits on rates payable for time deposits, and the rising trend of bill yields all have played a role in attracting a huge amount of nonbank short-term balances into Treasury bills.

Second, Treasury bill financing is not cheap financing. The buyer of bills today gets a good return on his money. Regular 91-day bills pay 2¾ to 3%, the new 6-month bills return 3⅛ to 3¼%, and these rates can be expected to rise as the supply of bills in the market increases each week over the next 13 weeks. Indeed, the highest rate the Treasury has paid on any obligation in more than 25 years was the 4.17% it took to place a "special" Treasury bill issue in August 1957. *We forget too quickly that in much of 1957 yields on shorter-term obligations were higher than yields on long-term bonds.* No one need delude themselves that the Treasury is going to reduce the $7.7 billion annual interest cost on the debt by concentrating its borrowing in the short-term area.

The disadvantages of bill finance to the Treasury are obvious enough. High rates are paid, but the Treasury gets little or nothing in return. *If a bond is sold at a 4% rate, the Treasury can forget about repayment for 20 or 40 years. Thus, for ¾% more* than it costs to borrow on bills, *the Treasury gets the investor to give up liquidity for a generation or more.* In contrast, the investor in bills is given 3¼% for parting with his money for only 6 months. Bills are hardly sold before the Treasury has to worry about raising the cash to pay them off.

An excessive volume of Treasury bills outstanding also creates problems for Federal Reserve credit policy. This is obviously true when the bills are bought by banks and are paid for with *newly created deposits which inflate the money supply. It is not so well known that bills represent an inflationary influence even when they are held by corporations and other nonbank investors.* The corporate buyer of bills exchanges cash for what Federal Reserve Board Chairman Martin has called "the closest equivalent to money that there is." A few weeks or months later the holder has an undeniable right to cash from the Treasury. Meanwhile, the Treasury spends the deposits it has received from the corporation, activating what were idle balances. *In short, the turnover of the existing money supply is increased by Treasury bill finance, permitting spending to go forward in spite of restrictive Federal Reserve credit policies.*

A Looming Crisis?

Responsible Treasury officials find support for their policy of floating debt finance in the market's appetite for short-term obligations. To be sure, the $11.9 billion short-term securities sold for cash since July has required higher rates, with 91-day bill yields rising from below 1% in July to a range of 2¾ to 3% in October and November. But on balance this has not seemed excessive and most people in and out of the Treasury see no objection to putting even greater reliance on increased bill issues.

No such complacency is warranted. It is highly questionable whether the market outside the banks can continue to absorb bills at the same pace in the future. Signs of strain will show up in March (perhaps as early as December), when needs to cover tax and dividend payments will narrow corporate demands for bills, requiring bank and Federal Reserve support for the market.

Furthermore it must be remembered that the recent heavy corporate demand for bills has reflected recession-induced inventory liquidation and cutbacks in capital spending, both of which freed funds for investment in bills. With inventory liquidation now about completed, and the decline in capital spending bottoming out, little further increase in the corporate demand for bills can be expected. Indeed, as business begins to rebuild inventories and enlarge its capital spending in 1959, corporations may have to peel off some of their current bill holdings in order to raise cash for these outlays.

When this happens the Treasury will have its back against the wall. As noted earlier, all the $11.9 billion securities sold *(Please turn to page 315)*

Are you renting today? —everybody's doing it...

— Everything from minks to machinery — plants to paintings

by Robert Ringstad

NOT too long ago, about the only item available for rent was Junior's tuxedo for the Senior Prom. Today, mother can rent a mink coat for a night on the town or great works of art for her next soiree, while the younger set embarks on a spin in a rented sports car. Every day, more and more businessmen are discovering the profitability in making available a myriad of products for rent to persons who might otherwise never be able to afford such luxury. What applies to private citizens is equally true for industry, but far more pertinent from an investment standpoint.

The lease-rental business is booming and for several good reasons which will be detailed in this discussion. It is important at the outset to differentiate between the two terms. Whereas the individual is more apt to rent a car, mink coat or cabin cruiser for a day or week, large corporations enter into long term lease contracts for their salesmen's automobile fleet or a particular machine tool or other specialized piece of equipment. Before proceeding to specific industries, let us first examine the whys and wherefors of lease-rental and its various ramifications.

A Mutually Beneficial Arrangement

Lease-rental represents the none-too-commonplace but happy combination of a mutually advantageous arrangement for both parties involved. Broadly speaking, it can be said that the lessee is relieved of the burden of raising capital to purchase needed equipment while the lessor realizes a tidy return on his investment. Just how do both parties benefit?

By offering their products for lease, manufacturers can smooth out the cyclical peaks and valleys characteristic of capital goods sales. Where customers are very likely to cut back major spending in recessionary periods, they are far less inclined to renege on lease agreements during similar periods. The lessor's charges assure him of a steady cash flow, sufficient to cover depreciation and the other costs connected with the equipment, and return a

profit. At the end of the lease period, title to the machinery remains in the hands of the lessor and if a new contract is not consummated or a purchase option exercised, the fully depreciated equipment can be sold for pure profit. One major factor in the leasing field estimates that such sales recover as much as 12%-15% of the original cost.

Nothing in this world is perfect and there are naturally some disadvantages to the lessor. In essence, they are the very things which the lessee is attempting to avoid—employment of capital to finance the equipment and the necessity of maintaining a sizeable maintenance organization. A substantially greater amount of funds are generally necessary to carry leased equipment as opposed to that needed when products are sold outright. However, this is somewhat offset by the usually more profitable leasing arrangement.

Cheaper Now—Why Wait?

It has been said that our economy has demonstrated quite conclusively that he who waits, pays more—the fixed assets you need are costing more each year. Here is perhaps the key to the existence of the lease-rental industry. Rather than wait to generate required funds for expansion internally, it is frequently more desirable to enter long-term leasing contracts when the need for equipment arises. It is true that the lessee on paper pays more in total over the life of the lease than he would have by outright purchase. But consider that to buy he may have to raise capital on which interest must be paid and, in addition, must maintain the equipment himself. If instead it is leased, thereby creating a deductable expense, the funds can then be used in more profitable directions, the net effect of tax saving and return on investment more than compensating for the excess of leasing charges over the purchase price. This becomes especially valid where the equipment leased is non-productive, such as salesmen's automobile fleets or other forms of distribution facilities.

Leasing Big Time

A recent example vividly demonstrates the scope now covered by leasing. American Airlines has agreed to lease 441 jet engines from manufacturers with the "rent" payable over a 7 year period and an option to buy attached. It is a hunger for cash which usually motivates a company to lease rather than buy and this case is a perfect illustration. American saved itself an immediate cash expenditure of $80 million in a jet equipment program that would have totalled $445 million were they to purchase the planes complete with engines. Not only that, but an additional $13 million was saved by shifting the burden of spares and some maintenance to the manufacturers. Such savings are indeed significant to the airlines, sorely in need of cash to finance their ambitious jet conversion programs.

Other Benefits in Leasing

There are important added benefits to the lessee. Besides being freed in most instances from the maintenance headache, he is assured of superior maintenance and the latest innovations applicable to the particular equipment leased. Another benefit which is very important to the lessee is actually open to interpretation. Long term leases do not usually appear on the balance sheet, thus keeping its appearance "clean."

The biggest danger to the lessee is that the lease charges will not be covered in times of declining earnings. Money can often be advanced on machinery owned, but it is a different story trying to borrow on someone else's property. In addition, the lessee does not have title to the equipment at the end of the lease period, thereby depriving himself of potential profit through disposal when it is no longer servicable or economical.

It is apparent that lease-rental is a concept valued quite highly and is not only here to stay, but definitely assuming greater importance. With the costs of necessary productive facilities spiralling ever upward and the cost of borrowed money likely to increase, leasing has become a profitable and well entrenched feature on the economic scene. Having examined its general characteristics, attention can now be focussed on the more important industries and firms deriving some part of their revenues in this manner.

Office Equipment Industry

This industry provides a good case in point to illustrate both the blessings and pitfalls of leasing. Only too quickly does the particularly unfortunate case of Underwood come to mind. Its attempts to become a major factor in data processing met with failure, since the development period was one of rapid technological advances and consequent obsolescence of equipment already developed, with attendant drains on capital. Underwood finally decided to drop out, writing off its Elecom Division at heavy losses. The company has yet to recover, operations having run at a deficit for several successive quarters.

More Paperwork

The complexities of modern business and continually increasing costs of clerical help have created a primary need for data-processing-systems to handle the ever-increasing flow of paperwork. In addition, demand for such equipment and computers is steadily on the upgrade for scientific and governmental applications too.

The evolvement of modern electronic data processing equipment to fill these needs has been long and costly, with an extremely high obsoloscence rate amplifying capital requirements. Profitability for the makers of these systems has been rare, and even now, only I.B.M. is believed to be in the black on larger installations. However, technical advancements have brought this equipment to the stage of development where it now can probably be depended upon to stay in place without costly modifications for long enough periods to return a profit to the lessor.

Data processing has dynamic growth potentials, not only in the giant "brains", but for the smaller lower and medium priced systems. The great ma-

Companies Active In the Rental Field

	Net Sales 1956 (Millions)	Net Sales 1957 (Millions)	Earnings Per Share 1956	Earnings Per Share 1957	1st. 9 Months Net Sales 1957 (Millions)	1st. 9 Months Net Sales 1958 (Millions)	1st. 9 Months Earnings Per Share 1957	1st. 9 Months Earnings Per Share 1958	1958 Div. Per Share *	Price Range 1957-58	Recent Price	Div. Yield
Addressograph - Multigraph	$ 86.9	$106.2	$2.78	$2.80	$106.5[1]	$120.4[1]	$2.50[1]	$3.28[1]	$1.50[4]	97 -34	91	1.6%
American Machine & Foundry	198.0	261.7	3.03	3.51	172.7	129.7	2.45	1.93	2.00	59¾-29⅛	55	3.6
Burroughs Corp.	271.7	281.1	2.35	1.67	204.8	208.4	1.11	.64	1.00	52⅜-27⅝	37	2.6
Compo Shoe Machinery	4.5	4.3	.12	.56	4.4	4.4	.43	.68	.30	9¼- 3¾	8	3.7
Ex-Cell-O Corp.	150.2	168.8	4.01	3.89	129.9	101.6	3.21	2.15	1.50	51¾-28⅜	45	3.3
Food Machinery & Chemical	302.1	313.9	2.36	2.30	241.8	241.0	1.77	1.80	1.20	39¾-21⅜	39	3.0
General American Transport	194.9	220.7	5.71	6.61	156.0	157.8	4.74	4.48	3.80	109 -67¾	103	3.6
Hertz Corp.	63.6	80.7	2.63	2.88	60.0	68.4	2.14	1.59	1.20[4]	47¾-27¼	48	2.5
International Business Mach.	734.3	1,000.4	6.55	7.73	704.4	866.0	5.40	7.72	2.60[4]	454½-249	452	.5
National Cash Register	340.9	382.5	2.62	2.57	277.9	282.9	1.73	1.49	1.20	76¾-46¼	68	1.7
National City Lines	26.0	25.0	2.45	2.74	19.0	17.9	1.78	1.09	2.00	29¼-18¾	28	7.1
North American Car Corp.	14.8	15.3	4.62	4.03	11.3	11.8	2.84	2.89	2.00	45 -28⅛	44	4.5
Pitney-Bowes, Inc.	43.5	45.9	3.14	3.07	33.5	36.6	2.19	2.29	1.60[4]	100 -44	94	1.7
Royal McBee Corp.	107.6[2]	94.8[2]	2.68[2]	.03[2]	26.8[3]	23.2[3]	.58[3]	d.13[3]	.60	40⅜-16	21	2.8
Sperry Rand Corp.	868.9	864.3	1.74	.96	422.9	439.4	.62	.38	.80	26⅛-17¼	23	3.4
Union Tank Car	34.5	62.9	2.40	2.64	32.7	64.1	1.92	1.66	1.60	36 -24¾	35	4.5
United Shoe Machinery	96.1	87.9	5.28	4.08	n.a.	n.a.	2.10[5]	1.63[5]	3.00	47⅝-30¼	42	7.1

*—Based on latest dividend rate.
d—Deficit.

1—12 months ended Oct. 31.
2—Years ended July 31, 1957 & 1958
3—Quarter ended Oct. 31.
4—Plus stock.
5—6 months.

jority of installations are leased, primarily to assure the user of the best maintenance and newest alterations. With economic recovery established to a certain degree, potential users may soon be entering into leasing arrangements and the more important manufacturers in the industry may begin to realize a return on their huge investments of time and money.

Service and Supplies

A most important contributor to revenues and earnings are follow-up sales of supplies and servicing contracts (when they are not written into the contract.). Not only does this impart stability to revenues, but each new installation put in place adds to the potential for further service and supplies sales. Outstanding examples of companies profiting from such an arrangement are Addressograph-Multigraph and Pitney-Bowes.

Over half of **Addressograph** revenues comes from supplies and servicing of its well-known addressing, billing, duplicating and mailing machines. Its growth trend in revenues and earnings is difficult to match. Although the market became acutely aware of the attraction of this stock this year, it still offers longer range attraction.

Pitney-Bowes is the originator of the postage meter and the largest manufacturer of mailing room equipment in the world. This is another company which has demonstrated unusual growth. A fuller discussion of the company will be found in the article, "Companies Whose Growth Has Been Achieved — Without Major Outside Financing — Mergers—or Acquisitions," which appears in this issue.

Standing apart in the office equipment industry is **International Business Machines.** It has tended to avoid equipment where competition is keenest, but in the area of giant computers, it has long since passed the original entrant in the field, Sperry Rand, having installed twice the number of large computers. I.B.M. is one of the few companies that has consistently returned better than 20% on the stockholders investment, and its amazing growth shows no signs of slowing down. Although profit margins have suffered somewhat due to the necessarily high costs of research, and development, depreciation and amortization charges, a high market valuation of the shares is understandable.

The two other major factors in data processing are **Burroughs** and **National Cash Register.** Both have concentrated on development of banking equipment to improve the efficiency of the many clerical chores associated with this business. Burroughs has a complete range of computers, from desk size to the giant brains. It is responsible for a major part of the data processing equipment for SAGE, our continental air defense system. National Cash Register introduced its banking systems last year before Burroughs was ready, necessitating a crash program by the latter. Many of these costs were written off against current earnings, thus explaining Burroughs poor performance during the past four quarters. Both firms are now believed to be delivering a substantial number of machines and earnings should reflect the improved conditions.

Royal McBee sales are derived primarily from the sale of typewriters, but data processing equipment and services do account for 30% of the total and conceivably could increase in importance. These shares are essentially a speculation on Royal's success at competing in the computer market.

Freight Car Leasing

The leasing of special purpose freight cars has proved to be a profitable and growing business. To have large amounts of capital tied up in freight or tank cars is an unproductive use of funds for many concerns. The leading car leasers are **General American Transportation** and **Union Tank Car** (compared and discussed at some length in the March 29, 1958 issue of this magazine).

Having had the more impressive growth record, GAT is more highly valued by the market. Besides leasing a fleet of 63,500 cars it manufactures cars, plastics and other industrial equipment. Exciting possibilities exist in the Kanigen process for chemical plating of nickel on large surfaces, while its Fuller Division has a revolutionary cement making process. Its leasing and service revenues have exhibited an almost unbroken growth trend and, while less than half of total revenues, they contribute nearly three-fourths of earnings. This company is usually considered a transportation or rail equipment company, but in effect represents a participation in oils, chemicals, foods and all the other industries leasing its cars.

Union Tank Car leases some 57,000 tank cars and primarily services the petroleum industry, but recent acquisitions could presage a shift to more aggressive policies. These acquisitions include Phoenix Manufacturing (1957), maker of rolled steel products, drop forgings, oil field equipment, and pipe and tank flanges, and Lang Co. (1958), a producer of tanks. The Phoenix merger substantially doubled UTX gross revenues and added new areas of potential long term growth. UTX has all-requirements lease contracts for tank cars with most of the Standard Oil companies and also with other major oil units. Through a subsidiary, it transports petroleum by tank trucks, mainly in the Midwest. The shares tend to sell at a lower market valuation and provide a higher yield than GAT. With 1958 earnings estimated at $2.40 the shares appear fairly valued on the nearer term prospects.

A third factor in this field is **North American Car,** operating over 4,700 tank cars, 6,400 refrigerator cars, and 3,300 stock, hopper and box cars. Under AAR agreements, the railroads pay the company for each mile the cars move, empty or loaded. There are only 615,913 shares of common stock outstanding. The annual dividend was recently increased to $2.00 per share.

Auto and Truck Leasing

The more familiar car rental activities of companies in this field are important and growing, but car and truck fleet leasing holds the greater potential for growth. The acknowledged leader in the field is **Hertz Corp.,** which expects to show a healthy 12% gain in revenues this year. However, the automobile dealers themselves have become interested in gaining a share of this lucrative business, having noticed with considerable envy the gains in rental and leasing of cars—from 80,000 in 1949 to over 350,000 last year.

There are pitfalls in car rental and leasing that call for a keen sense of gauging demand. Should demand be underestimated, potential customers will be turned away when not enough cars are available, causing a certain amount of ill-will. On the other hand, should demand be overestimated, cars and trucks lie idle and bring about not only operating losses, but probable loss on resale in a used car market, glutted by other over optimistic lessors. However, leasing takes about 90% of the cars and these longer term contracts are easier to predict.

Hertz has had an excellent growth record and is aggressively expanding its scope of operations, but the advent of new competition such as Greyhound could sap a sizeable amount of the growth ahead for car and truck leasing.

Specialized Machinery

The shoes we wear are a product of some 40 different manufacturing operations, each step requiring specialized machinery. While there are thousands of shoe manufacturers, the machinery leasing end of the industry is dominated bv **United Shoe Machinery,** which accounts for over 75% of all machines leased. Under the terms of a 1955 consent decree, machines must now be offered for sale, but lease income should continue to be important since so many shoe manufacturers cannot afford purchase. Higher rates on leased machinery and a pickup in shoe production point to some earnings improvement and a strong financial position indicates continuation of the $0.625 quarterly dividend rate.

Compo Shoe Machinery receives about a quarter of its revenues from leasing of machinery. It also sells adhesives, and earlier this year was named national distributor to the shoe industry by Minnesota Mining & Manufacturing, of its Scotch Brand shoe tapes and 3M coated abrasives. The shares are a lower priced speculation on the fortunes of the shoe industry.

Food Machinery & Chemical is one of the few companies expected to show an earnings increase this year and continued improvement is due next year. Primarily responsible were improvements in its many chemical processes. Leasing of its specialized agricultural and food handling machinery contributes only a small percentage of overall volume, but it will be increased over the years ahead, although not to a position of major importance.

American Machine & Foundry is an important factor in the field of automatic specialized machinery. This company was covered in our October 11th 1958 issue, in the article "A Fresh Appraisal of 1958 Market Leaders."

Ex-Cell-O Corp. lease income accounts for about 13% of its total and is derived from its Pure-Pak machine, which forms, coats, sterilizes, fills, seals and dates paper milk containers. Precision products and machine tools are the main contributors to revenues, with defense business taking 52% of the total. The automotive, aircraft and metalwoking industries are its main customers. Essentially cyclical, the shares have moved up considerably from the low reached earlier this year and probably go a long way toward discounting potential earnings improvement. END

How big a prop to prosperity Is Government Spending?

Can the Government...

- **Risk further erosion of the dollar through deficit spending?**
- **Cut the budget and slow down productivity?**
- **Are higher taxes necessary — but what affect on consumer spending — what is the best way to maintain our economy and our currency? We must give somewhere.**

By James J. Butler and McClellan Smith

THE national economy is firmly planted between the horns of a dilemma with government spending at once a source of strength and a pervading problem which seems to offer two choices of action, both hard: 1. Cut spending on Federal, State and Local levels with the probable result that recession, possibly depression, is invited. 2. Continue to spend at the present rate, or even faster, and spiral taxes upward to carry the burden—which could cut into consumer spending.

On the side of strength there is this item of ready calculation: Federal spending this year will reach about $80 billion against a gross National Product of about $435 billion—which means business relies on Washington orders and remittances to the tune of about 18 percent of its total take. Add to this, State and Municipal spending, and the percentage zooms. How much more, is speculative: 10 per cent, 25 per cent?

As a new Congress convenes, spending problems must be uppermost in the minds of the lawmakers and the taxpayers alike. It is robbing businessmen of sleep. Or should be. The query naturally is: If governmental agencies curtail spending, what will take up the slack, and, if economy is too rigid what effect will it have on American business in an already seriously-troubled domestic and world market? Will the essential replacement business materialize? From where?

Much of what government spends, on each of the three levels, is in the nature of fixed and maintenance charge. Payrolls can be subject to only slight retrenchment unless whole services or projects are abandoned. But procurement costs are high. They are capable of some reduction without doubt; how much cutting they can stand without severely affecting business is a query that calls for sharpened pencils and close attention to experience.

It isn't necessary to go back very far to see what happens when government tightens the purse

strings. Even a disbursement slow-down (not outright cancellation) gave segments of the defense contract business king-size headaches in mid-1958. Labor felt it first, and, perhaps, most severely. Translate that experience into a more general withdrawal from public contract activity and the picture becomes both clear and more frightening. And that, mind you, is only spending on the Federal level. What was happening at State and Local levels followed no standard pattern—it was bad, or worse, in the degree of curtailment.

Deficit spending introduces a problem in itself. The Nation has had a $300 billion public debt and recovered from it. The current liability is too close to that all-time high for comfort. To the extent that there are obligations outstanding against our national product there is a cloud on the essential strength of our dollar.

Neither party has so much as dropped a hint of higher general Federal taxes to be voted in the next Congress. Each says there are billions of escaping tax dollars. To corral them must be a No. 1 objective of the new Congress. The amount may be large, probably is; but is it a total substitute for the flow of business-promoting money—tax-producing money too—entailed in an $80 billion annual Federal budget?

It is a common misconception that the Federal Government operates in Washington almost exclusively and spends its money in or near the Capital. The fact is that the spending is distributed throughout the length and breadth of the Nation. In every sales place and at every factory work bench, the spread of these funds is felt, immediately or eventually.

No Tax Cut Likely

In the present state of Federal finances and Treasury commitments it is certain that there can be no general tax reduction in 1959. There appears to be arrangement on all sides that construction on the huge transcontinental highway program must be slowed unless the gasoline tax (source of its funding) is increased. It is virtually certain that the big producers in the excise tax field — alcoholic beverages, tobacco, and automotive—will continue to make heavy contributions via another extension of the wartime levies which have been continued on a year-to-year basis. About $10 billion in revenue is at stake. The automobile industry, supported this time by its labor unions will seek to lighten the tax burden. Job and business promotion will be the arguments. But, unless all present signs miscarry, the effort will fail.

Where to Spend — Where to Curtail

Spending was the subject of a 19th-hole parley at Augusta, Ga., when Defense Secretary Neil McElroy sought out the President to say the much-touted "economy program" must stop short of the Pentagon. In fact, McElroy took the realistic view that not less but probably more will be needed. The Secretary wouldn't venture to say how much more—$2 billion seemed a trifle high; $1 billion left him noncommittal. In an $80 billion annual disbursement, $1 billion seems a trifle. But it is a "trifle" that would involve either more Treasury income, or more deficit spending. In view of the steadily mounting cost of labor and materials, it is doubtful whether McElroy's budget, as yet undisclosed, contemplates more defense than was provided for the current year.

Disposition of Congress, reflected in campaign and post-election statements is to "sin" on the side of too much spending for national safety, rather than penny-pinch. The economics of the situation raise a warning finger against cutting, excessive cutting in any event. Organized labor, with its increased strength in both Houses of Congress will translate defense appropriations into jobs retained, or lost. If the threat of the latter increases, the union lobbyists will be found shifting emphasis from grabbing to holding—retaining as much of the benefits already achieved as possible, instead of expending effort to snare more gains.

The Democrats and Defense

Sen. A. S. Mansfield, Assistant Leader in the upper house, has presented what might be regarded as the official position of the Senate Democratic Majority. After news of a Georgia meeting came out, Mansfield cautioned the Administration against drastic cuts in defense outlays. The Senator frowned on the proposal to reduce manpower. In what amounted to an ultimatum, the Montanan called on the White House and the Pentagon to carry out "the expressed intent of Congress" as mirrored in funds voted for the current year.

Upon his return from the visit to the President, McElroy was closeted at the Pentagon with State Secretary John Foster Dulles. The meeting was intended to be hush-hush. But when the Cabinet members emerged to find newsmen waiting, McElroy sought to dismiss the importance of the session as "routine." A moment later he inadvertently placed a different coloration. He commented on the Mansfield statement, to say that manpower cuts are inadvisable while the world situation remains as it is, particularly the Berlin problem. Obviously the chiefs of military and diplomatic affairs had huddled over the inter-relationship of their areas and found no safety in lowering the guard.

Congressional Cost Cutting

On the other hand, committees of Congress have determined to attain the objective of saving billions in the process of changeover from conventional weapons to missiles. The economy proposed would not be reflected in a greatly reduced budget for next year, but would have the effect of restraining an upsurge; if the goal is reached, the savings, while totaling several billions, would be spread over a period of years. Here is what Rep. F. Edward Hebert (D., La.), Chairman of the Armed Services Special Investigating Committee has in view: There are more than 50 government-owned munitions factories now standing idle, many of which might be used for manufacture of missiles. But the Armed Services want to build new facilities to do the job. The Air Force, for example,

wants a half-billion dollars for next year's installment on such a program. Hebert has asked the three military secretaries why the Government should not award contracts with a specification that the existing, idle, plants be pressed into service, rather than to build new ones. Hebert wants to know, for instance, why facilities such as the following should stand un-used while duplicating plants go up elsewhere: Birdsboro and Coraopolis steel mills in Pennsylvania; Keystone Arsenal at Meadsville, Pa.; Pacific Ordnance at Pittsburg, Calif.; Dixon Gun Plants at Houston, Texas; Indiana Arsenal at Charlestown; Plus Brook Ordnance at Sandusky, Ohio, and Milan Arsenal in Tennessee.

Where to Get the Money

If, as seems likely, there will be more Federal spending involved in the budgets developed over the next several months and available to departments and agencies on July 1, 1959, it goes without saying that the Treasury must take in more money. The present rates of taxation won't do the job. The alternatives to deficit spending are to raise the rates, or to obtain more revenue under the existing structure. Vastly improved business conditions would contribute some. But the fluctuation in commerce which raises or lowers tax payments isn't always significant. We have just experienced a recession. At times it looked as if it were developing into a depression, with some localities already in that status. Yet business paid into the Treasury very nearly the same amount as would be received if times were normal. A business boom large enough to ease the financial headache would have to attain proportions that could introduce new elements of danger.

The objective of the Ways & Means Committee—tax-writing group of the House—is to bridge the dilemma by providing essential income without boosting taxes. This means closing loopholes in the Revenue Act. It means tackling the tax structure as a whole, not sectioning it and in the process, missing the relationship of chapters to one another.

For example, it has cost the Treasury very little to reduce the amusements excise tax, or to cut the tax rate on passenger travel. But contrary to the demands of President Eisenhower, Congress provided no substitute revenues. Add these two to a dozen more which came close to passage and the loss would be substantial. The weakness in the procedure was failure to examine each item of tax in its relation to all others. The need for reductions in amusements and travel taxes was manifest. But obviously the result was to introduce additional inequalities into the Revenue Act.

Revamping Tax Structure in the Cards

Ways & Means Chairman Wilbur D. Mills (D., Ark.), seconded by Speaker Sam Rayburn, of Texas, has turned thumbs down on individual or corporate tax cuts in the coming year. Also he is ready to present legislation extending for one year (from April 1) the heavy excises—liquor, tobacco, automobile. After shoring up the existing structure, Mills, *et al*, will look for leakages. The Congressman complains too many Revenue Act "revisions" in the past have been rush jobs with consequential penalty to the overall revenue. This time, he told committee colleagues, there will be no shooting for a firm deadline date; if it becomes necessary to hold off substantial improvement until 1960, *that will be the program.*

Insurances Companies to Pay

One fact seems quite certain at this point: The life insurance *(Please turn to page 313)*

ANALYSIS OF PROJECTED FISCAL 1959 FEDERAL EXPENDITURES OF $80 BILLIONS IN RELATION TO BUSINESS BENEFITS. FIGURES ARE ROUNDED TO NEAREST MILLION DOLLARS, CONSEQUENTLY MAY NOT ABSOLUTELY BALANCE. COMPILED FROM BUDGET BUREAU RECORDS, THE APPROPRIATIONS COMMITTEES OF CONGRESS AND OTHER SOURCES.

	Item	Millions of Dollars
1.	Direct Purchases of Supplies and Equipment (including Defense)	26,000
2.	Land purchases and construction	1,400
3.	Transportation of Federal property	1,800
4.	Transportation of Federal personnel	989
5.	Communications via private systems	322
6.	Rentals of private properties and utilities (gas, water and electricity)	804
7.	Contracted printing outside the government printing office	161
8.	Other contractual services, including research	7,600
	Total Federal expenditures going direct to business	39,176

FEDERAL EXPENDITURES, NOT DIRECTLY RELATED TO BUSINESS, EXCEPT THAT PAYROLLS, PENSIONS AND GRANTS AND SUBSIDIES FLOW INTO THE CHANNELS OF RETAIL TRADE

		Millions of Dollars
1.	Personal Service, including civilian and uniformed Armed Forces payrolls	20,300
2.	Pensions	4,000
3.	Interest on Federal Debt	7,900
4.	Grants and subsidies to States and lesser political units	6,300
5.	Intergovernmental agency payments	545
6.	Miscellaneous government payments, mostly classified or otherwise restricted	1,779
		40,824
	Total	80,000

STATE COUNTY AND MUNICIPAL TABULATIONS -1959)
(Estimates based on revenues, past appropriations and expenditures)

		Millions of Dollars
1.	Gross revenue from all sources	20,000
2.	Payrolls and other housekeeping expenses	9,000
	Estimated expenditures for privately supplied goods and services	$11,000

* Classified or restricted governmental payments involve ore purchases for the Atomic Energy Commission, closely concealed rocketry research and other "hush-hush" items, but probably no less than 50% goes directly to business — miners of ore, laboratories and other research organizations.

Inside Washington

By "VERITAS"

STRIKE BENEFITS paid to workmen who walked off their jobs may be regarded a form of survival for the families of the voluntarily jobless but the men who sign the checks see them in a different light. Eric Peterson, general secretary-treasurer of the Machinists' Union, put it coldly when it was announced that the weekly benefit has been increased to $35 per striker. The labor leader phrased it in all frankness this way: "IAM members have a new asset at the bargaining table." In the week of Nov. 24, the fund paid out $140,000 to idle members. The Machinists' coffers can stand the drain: the "kitty" has passed the $2 million mark.

WASHINGTON SEES:

Soviet workers are about to go on a seven-hour day, made possible, said the Embassy in Washington, by success in developing the country's national economy. It sounds like a break for Ivan. But wait 'til he learns the price.

The Reds have used polysyllabic words to obscure simple facts. But automation and the speed-up system are inherent in the program. For example, progressive technology is to be invoked, but not under its more commonly understood term "automation." Then there is to be "technically-substantiated output rates and economically effective wage systems," which any factory foreman would readily interpret as a speed-up on piece work. That doesn't mean higher wages; the Soviet is careful to announce the goal "to make labor productivity at every enterprise grow faster than wages."

The proclamation skips lightly over passages that would send Walter Reuther on the warpath: savings are to be made by eliminating extravagance in the bonus system ("fringe benefits" as they are known here); also out the window goes term-of-service remuneration which Americans know as seniority or longevity pay, or in-grade raises. But that isn't all: auxiliary workers (featherbedders?) are to be dropped, shops and sections are to be merged and centralized. In the United States that's called "retrenchment" and it usually happens when business falls off.

SEN. PAUL DOUGLAS, one of the evangels of the liberal-labor bloc in the upper house of Congress if not in fact its leader, gives labor no encouragement in its aspiration for a bite-less union regulatory act. Arriving in Washington in advance of the new session, the Illinois Senator dismissed talk of revisions and new approaches with the comment: "I think we're going to get the Kennedy-Ives Bill substantially in the form it was introduced last year." Many of the members of congress who were fast-talked out of enacting the bill last time by the promise of a more drastic measure, know the lineup of the Senate and House militate against attainment of that goal in 1959 and are counted on to swing behind the Kennedy-Ives draft.

CONSTRUCTION in 1959 is expected to hit a record of $52.3 billion, based on a consensus of public and private soundings. The same surveys indicate that money for home mortgages probably will become less readily available at the comparatively low down payments and interest rates prevailing now and carrying over to 1959. The expected level of construction business, representing a 7 per cent increase over the current year, would shoot annual spending past the $50-billion mark for the first time. Public expenditures are expected to provide the major part of the expansion—an aggregate of $17.1 billion, involving a $2.1 billion increase, mostly for highways.

COMPETITION from Western European countries and Japan, particularly in industrial equipment such as textile machinery, is cutting into United States export to the Far East. European automobiles also are displacing the U.S. product as leader in that market — price, size, gasoline consumption and local assembly as well as the dollar restrictions are factors. The Commerce Department suggests more attention to personal contact and use of nationals as agents. It is preparing more specific guides for exporters.

As We Go To Press

►Threat by the carpenters union to disassociate itself from the AFL-CIO won't slow the Executive Council's demand that the organization toe the ethical mark. President Maurice A. Hutcheson will find himself in the position of James Hoffa if he doesn't submit to what amounts to a "trial" of the carpenters and a virtually assured sentence to clean up or get out. Hutcheson has his union's permission to forestall expulsion by formal withdrawal. If he doesn't exercise that power before the AFL-CIO opens its annual session in Puerto Rico, Feb. 16, 1959, or conform to prescribed ethical practices, he may find it too late.

►Hutcheson is playing a game that Hoffa tried and lost. Based on disclosures before the Mc Clellan Committee, the carpenters' officers were asked to attend Executive Council meetings Nov. 6-7. They abstained. But the Council proceeded in ex parte session to discuss the bill of particulars first placed against the dissident union in August. In the main it involved expenditure of union funds, and refusal to answer to the Mc Clellan group on this point. Apparently a prima facie finding of guilt was entered: AFL-CIO President George Meany messaged Hutcheson after the meeting, saying "many questions have been left unanswered." Meany did not demand the presence of carpenters chiefs at San Juan. They were "invited." But if they don't show up, they are told, the Council will meet them in Washington "on one week's notice."

►Off-the-farm costs are pushing food prices upward. The climb was constant in 1958; during the third quarter these items accounted for 5 per cent more expense than in the same months of 1957, the U.S.D.A. Marketing Service figures establish. And they will go higher in 1959. Included are containers, packaging materials, motor vehicles, equipment, construction. Average hourly earnings increased by about 4 per cent during the year, but unit costs of labor didn't move upward as rapidly due to improvements in productivity. The Department of Agriculture forecasts similar proportionate rise for 1959. Also predicted is a decline of 5-10 per cent in net farm income next year. A factor will be $700 million less to be paid out under the soil bank program. And there will be no corn subsidy. Farmers have voted to reinstate the law of supply and demand on this commodity, renouncing subsidies in favor of unrestricted planting.

►More hearings are on the way on the relationship of prices to economic stability and growth. The Joint Economic Committee of Congress will sit Dec. 15-18 with a schedule of witnesses including professionals from labor and management and eight academic economists. This will be the fourth phase of the year-long study conducted under the chairmanship of Rep. Wright Patman. In panel fashion, the experts will cover a broad expanse which will embrace employment act objectives and the stabilization of prices; analysis and causes of price changes and their effect on economic activity; private pricing policies and the effects on public policies; formulating public policies for economic stability and growth.

►Post-election calm is setting in. The democratic landslide raised spectres of Federal Government under ownership and control of leftists and spenders. The apparition appears to have dissolved, at least in the minds of the less timid. Bitterly disappointed at the fact that his first free-wheeling tour into partisan politics had failed to produce results, Ikes outlet was a blanket indictment of "spenders." The facts, and the expressed attitude of many influential GOP personalities and groups, soften the charge. It is true that the President saved the taxpayers several billions of dollars by vetoes and threats of veto in the last session. It also is true that every penny that will be spent for a mainfestly too-costly government was authorized by the

signature "Dwight D. Eisenhower." It was all covered in appropriations bills which he approved. And several billions of dollars he had asked Congress to appropriate were not in those bills. Congress had demurred.

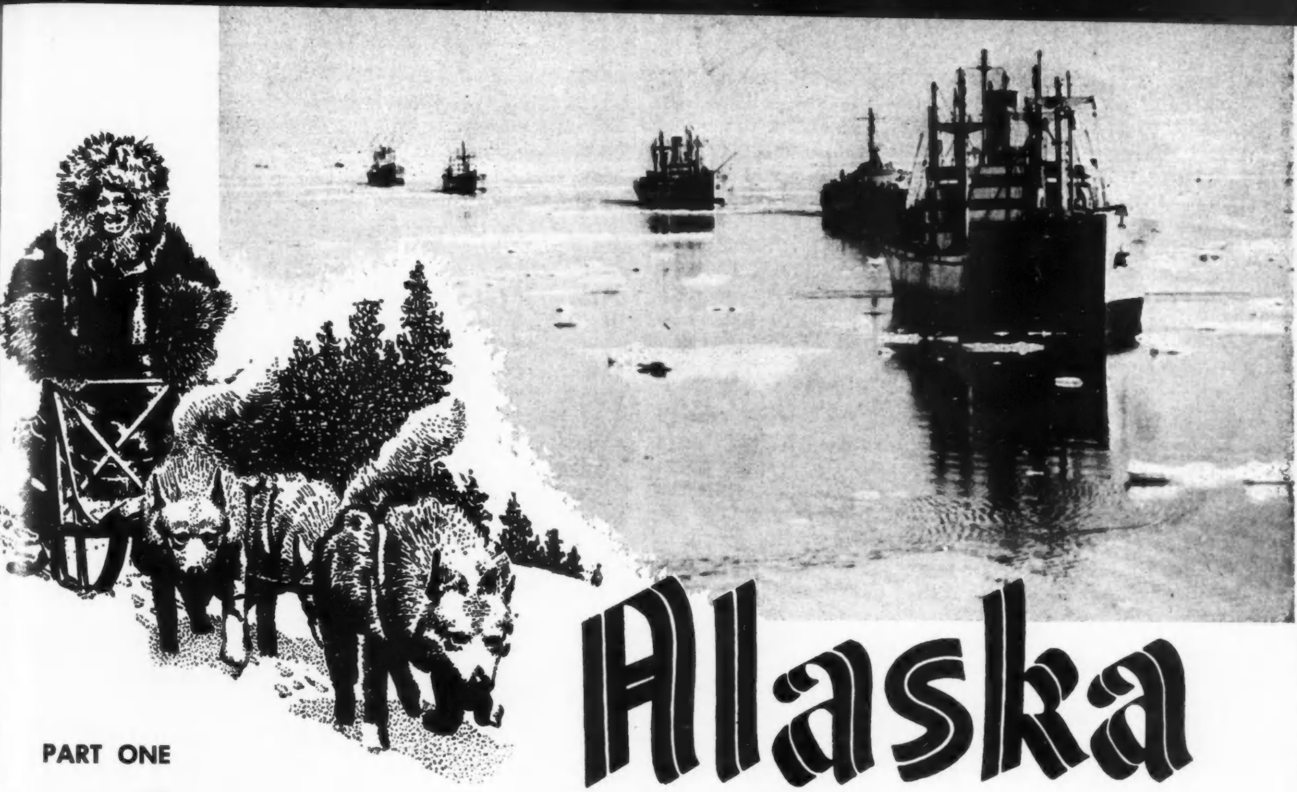
►Rep. John Taber of New York, who has been a penny-pincher in the interest of the taxpayer through both republican and democratic administrations views with horror the upward movement of costs and public debt. But Congressman Taber doesn't agree with Ike: this will not, he says, be a "spending Congress." The New Yorker and his fellow GOPers haven't the votes to determine the issue, but he proceeds on th acceptable theory that the democratic party isn't going to commit political suicide with a national election just around the corner.

►The U.S. Chamber of Commerce reached a like conclusion. "The businessman can and must work more closely with Congress than ever before," the Chamber speculates. Continuing along this theme, it said: "There is no basis for believing that all the conservative, free-market economy-minded members of Congress are to be found in one political party; no reason to feel that business problems will be of any less concern to the new Congress than to the past one. This generation has seen Congresses with far greater partisan majorities than the new one will have. Yet even in those rampant New Deal days the voice of business was still effective. Far from getting the cold shoulder treatment, business men were encouraged to pour into Washington to consult on both legislative and executive branch matters. And when their advice was not followed the business men often were able to exert a moderating influence even on the most urgent and basic issues. The business viewpoint was reflected in many features of the Banking Act, the law regulating securities transactions, the Social Security Act, Reciprocal Trade Act, National Housing Act and even in the earliest versions of the Wage-Hour Law."

►Among those who agree that the next session won't kowtow to unions to the extent of risking the tag "Labor Congress," is Andrew J. Biemiller, former mid-western Congressman who has been legislative chief for organized labor for many years. The top union lobbyist doesn't regard the election results as a "great sweep" for labor, pointing out that many of the candidates backed by his organization won but none on the single factor of union indorsement. His hand has been strengthened, Biemiller believes as he views the jobs ahead for next year, but he has warned his associates that there will be defects as well as victories. Among the bills he believes will prevail is the anti-corruption measure patterned after the Ives-Kennedy Bill, and hospital and surgical care for social security beneficiaries.

►As has been the case in several situations in the past, the courts and federal agencies have been more alert to the job of cleaning up union abuses than Congress has. A Georgia court, for example, has barred use of union dues for any purpose other than collective bargaining. If the decision is upheld on appeal (it may go to the Supreme Court) political activities of unions will be curtailed. The ruling enjoins 15 non-operating railway unions from forcing six employees of the Southern Railway to become members if part of their dues payments are to be used for purposes other than bargaining under the existing statutes. When the Supreme Court upheld legality of the union shop providing for compulsory membership the justices indicated their decision might be different if the question raised involved use of dues money for purposes in which the affected workers do not believe.

►And in a situation presented to the NLRB General Counsel as the basis of a complaint that a union official had been discriminatorily dropped, the fact that the affected individual had been convicted of conducting a lottery was the turning point. The union man had been fined $1000 and given a 2-year suspended jail sentence. At the time of the court proceeding he, and others, were on a temporary economic layoff. When he was not recalled he protested. Told that this conviction for commission of a crime was the basis, he began proceedings which th NLRB counsel chilled by refusing to file formal complaint. The law, it appears, will not tolerate criminality. In the lower union echelon, in any event.



PART ONE

Alaska

—Treasure trove of natural wealth

by John E. Metcalf

EDITOR'S NOTE:

Part I — A great opportunity for venture capital from the United States in this, our 49th state — before Japan and the other nations siphon off the cream. At this time of Russian-engineered world turmoil and the growing trend toward nationalization — when huge sums are seeking long-term speculative investment — why not make it Alaska, unexploited rich land of adventure and opportunity.

Part II — Will concentrate on the unique character of Alaska's strategic position geographically — what it can mean to the security of the United States — and the peace of the world. How its great storehouse of natural resources can reestablish our self-sufficiency in essential materials — the lack of which has obliged us to depend on foreign sources.

ALASKA, our 49th state is aptly called "the last frontier." But it should be borne in mind that this, the greatest of our states, is a 20th century frontier. The pioneering that once took generations can now be telescoped into decades thanks to electronic and jet communications, photometric reconnaissance, geiger counter and seismograph.

For investors this jet age frontier offers diverse opportunity. Alaska is filled with resources waiting for the resourceful. It desperately needs enterprising men and venture capital. Many future fortunes will be built in Alaska, but there are risks as well as profits. Those who are seeking groundfloor opportunities must choose wisely.

With the coming of statehood, Alaska today stands on the threshold of the most dynamic era in its history! Its entry into the Union coincides with, and indeed assures, what promises to be the third and greatest boom in its vigorous young life. The first such spurt of activity came with the Gold Rush of 1898. The second had its origin in the defense spending splurge that started during World War II. The boom that is just now getting underway was touched off by a major oil strike in mid-1957 on the Kenai Peninsula, one of the most accessible regions of Alaska.

Fabulous Resources

The yellow metal once panned by the Yukon sourdough and the black gold which holds such bright promise for tomorrow are only two of the fabulous resources of this new state. Alaska is more than twice the size of Texas, one fifth the area of the present continental U.S. Superimposed on a map of the other 48 states it stretches 2,500 miles from Florida to California and along its north-south axis it would reach from Canada almost to Mexico.

Contained within the vastness of these 586,000 square miles are known deposits of 31 of the 33 strategic minerals judged necessary to the United

States. A partial survey of hydroelectric capacity indicates a potential in excess of 8 million kilowatts —said to be the largest undeveloped source of water-power in the world. Its timber resources accessible to tidewater are capable of supplying a sustained yield estimated between one and two billion board feet annually. Although Alaska's largest industry at present is fishing (chiefly salmon), with the 1958 catch close to $100 million, the bountiful supply of shellfish in coastal waters has barely been touched. Also, and for close to a century, Alaska has been one of the world's leading sources of fine furs.

The Conservation Deepfreeze

With such a treasure house as this lying virtually at our back door, one is prompted to ask why Alaska's development has not been at a faster pace. High transportation costs, remoteness of the interior region, severity of winter, and shortage of local capital and labor are the factors often cited.

Not to be overlooked, however, is the government's role. No one denies that Washington's pump-priming military construction program has virtually doubled Alaska's population and income flow. About $1 billion of defense funds were spent in Alaska during World War II, and, with the onset of the Cold War, another $2 billion has flowed northward due to the area's strategic location. The roster of projects is impressive: four major army camps, three airfields for SAC and 600 miles of oil pipeline, a naval base, the 1500 mile Alcan Highway, the DEW line and the White Alice communication network, missile bases, etc.

On the other hand, bureaucratic management of the territory's resources has slowed the pace of economic diversification, keeping Alaska dependent on federal funds. Few will argue against the importance of sound conservation. However, under federal stewardship—with 99% of the land owned by the government—the emphasis seemed to be on conservation-for-its-own-sake rather than prevention of waste and orderly development. When "Seward's icebox" turned out to be packed with treasure, the government kept much of it in the deepfreeze, seemingly determined to make Alaska a national park of subcontinental proportions.

Altogether, about one-fourth of Alaska's territory has been withdrawn from the public domain in special reserves. These include national parks, monuments and forests, wildlife preserves, bird sanctuaries, military reservations, bombing ranges, mineral withdrawals, road rights-of-way, watersheds, and the like. The majority of these areas are closed to settlement, prospecting, or other types of economic activity.

Significance of Statehood

Now, after 43 years of trying, Alaska has finally become a state, and it expects to have a greater say in the development of its own resources. A more realistic viewpoint is anticipated—one that puts emphasis on the orderly attainment of a balanced economy. The statehood act provides Alaska with a dowry of 103 million acres of federal land which it may select during the next 25 years. The income derived from land sales, concessions, and future taxes will considerably broaden its revenue base.

Having obtained statehood, Alaska's next goal is it strengthen its economy. To do this, it seeks a stepped-up inflow of private capital. Where federal redtape interferes, it has a potent new weapon with which to fight back. Its senatorial vote, equally important as that of New York State, can be used to legislative advantage. Thus investment in Alaska's future now offers attractive opportunities. Here, as in the case of foreign investment, one can join in the devlopment of rich natural resources, but without fear of capricious government action like exchange controls, blocking of balances, or even nationalization.

Map of Alaska superimposed on map of the United States of the same scale. This shows that it is farther from Southeastern Alaska to the tip of the Aleutian Chain than from Charleston, S. C., to Los Angeles, Calif.

The Long Search for Oil

For half a century oil men have been probing Alaska's surface, intrigued by natural seepages and favorable structures. Although exploration was sporadic, it continued because the trickle of evidence tended to confirm a noted Standard Oil geologist who had said that geologically Alaska is one of the four great oil provinces of the world.

Back in 1923 the U.S. government placed some 35,000 square miles of likely territory along the frozen Arctic Slope in a naval petroleum reserve, but it did not get around to drilling the area until World War II. The discovery then of several oil and gas fields caused little excitement because of the region's inaccessibility. Getting the oil out would involve either an 800-mile pipeline southward across two mountain ranges or tanker shipment from Point Barrow through the Bering Straits, a route that is open, only for about three weeks each year.

In the postwar period the hunt for Alaskan oil

continued, and in mid-1957 came the electrifying news that Richfield Oil Corp. had brought in a wildcat well on the Kenai Peninsula producing 900 barrels a day. The location was most significant since the south coast region of Alaska is the center of population with mild climate, good harbors, and year-round transportation.

The Richfield find touched off a great spurt of activity by American oil compaines. The acreage under lease or applied for has now risen from 10 million to nearly 40 million acres. The city of Anchorage is the center of operations with 10 majors and several independents setting up permanent offices there. Altogether, some 30 companies have joined the search for oil.

Hottest Wildcat Area Today

Just how good are the prospects? For understandable reasons the big companies are not doing much talking since leases are still being negotiated. But with 35 geological and geophysical parties in the field this past summer, Alaska is considered "the hottest wildcat area in the world today." An authoritative oil journal said earlier this month, "Those with experience in Alaska or who have investigated the territory have one report: the oil prospects of the country are fabulous, but so are the risks." And Michel T. Halbouty, independent Texas oilman, said recently upon his return from Alaska, "It is my confirmed opinion that Alaska will eventually become one of the most prolific oil and gas producing areas in the world."

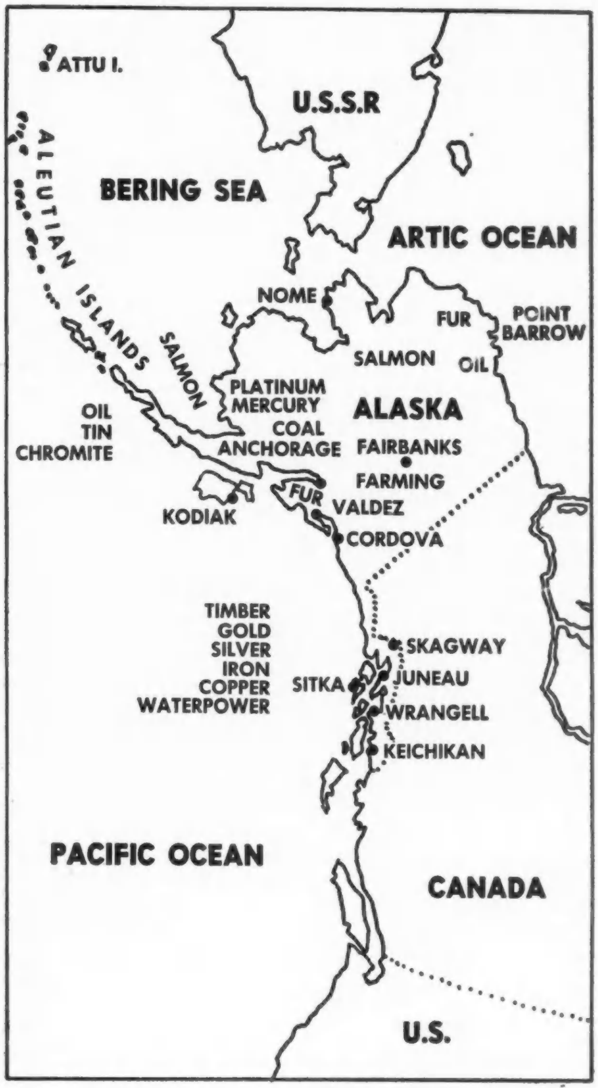
About $3 million a year was being spent on Alaskan oil prospecting prior to 1957. Richfield and its new partner in the Kenai Peninsula, California Standard, now have a $30 million joint venture and are spudding in test wells as fast as their rigs permit. Union Oil Co. of California and Ohio Oil Co., also working jointly, have seismic crews on the peninsula this winter and are expected to start drilling in the spring. And Texas oilman Halbouty plans to begin test drilling in the northern Kenai in February on a farm-out from Alaskan Oil & Mineral Co.

The hunt has fanned out in other directions, and major commitments for Alaskan oil exploration are now in excess of $100 million. If current operations meet expectations, some $300 million reportedly will be spent.

To the west on the Alaskan Peninsula, beginning of the Aleutian chain, oil seepages have been known for decades. Humble Oil & Refining has been drilling there to obtain a half interest in acreage held by Shell Oil Co. California Standard is also active in that area, as well as Great Basins Petroleum Co. and General Petroleum Corp.

On the southeast coast, another very promising region with numerous oil seeps, Phillips Petroleum Co. is exploring a million acre concession in the Katalla district. Further down the coast at Yakutat Bay, Colorado Oil & Gas Corp., Frankfort Oil Co., and Continental Oil are drilling their third test well on another million acre leasehold.

Inland leases have been taken up in the Copper River Basin northeast of Anchorage, the Kandik-Yukon Basin to the east, and the Koyukuk area 300 miles west of Fairbanks. Recently the Interior Department opened up for bids some four million acres on the Arctic Slope, hitherto closed to prospecting. Among the parties active in these various areas are a number of West Coast majors, Texas independents like Halbouty, John Macom, and Hunt, and Alaskan Oil & Mineral Co., Inc. of New York.



Map of Alaska showing location of important products.

Bountiful Timber Supplies

Alaska's timber industry is also in its infancy. But it holds great promise for investors since U.S. pulp, paper and timber import needs are currently about $1.3 billion annually. The coastal forests of southern Alaska and the Panhandle region contain an enormous supply of hemlock, spruce, and cedar—much of it suited for pulp manufacture. Owing to the numerous islands and fiord-like indentations of the coast and the low elevation of the timber line, at least three-fourths of the commercial timber lies within 2½ miles of icefree tidewater. Virtually the entire area is a National Forest and prior to 1948 it was not open to private concession.

Within the interior are vast uncharted stands of spruce and Alaskan birch. Although a part of the public domain, their usefulness is lessened by difficulty of access. Small portable sawmills process 25 to 50 million board feet of lumber annually for building and construction use, but paradoxically Alaska must import two or three times this amount to fill local needs.

Now that logging on a sustained annual yield basis is permitted in Alaska's national forests, considerable capital has been attracted. Year-round operations are helping to stabilize the Panhandle economy hitherto dependent on seasonal activity. The first 50-year concession was granted in 1951 to the Ketchikan Pulp Company, jointly owned by American Viscose and the Puget Sound Pulp & Timber Co. Their $64 million rayon pulp mill, one of the most modern, began operating in 1954.

The most unique venture is the Japanese owned Alaska Lumber & Pulp Co. which is putting up a $55 million cellulose pulp mill at Sitka to be completed by the end of 1959. The entire output, about 1¼ million tons a year will be shipped to Japanese rayon producers who are dependent on imports for all their pulp supply. U.S. financing was arranged for 30% of the cost, with the Japanese taking up the balance.

Alaska Plywood Corp. has been operating at Juneau for several years using Sitka spruce. Pacific Northern Timber Co. of Portland has a concession for a sawmill now building near Wrangell and a small pulpmill to be ready by 1962. Also, Georgia-Pacific Plywood Corp. has obtained approval for a $54 million newsprint mill to be located near Juneau. Other concessions can be expected in this region since present and proposed pulpmills and plants will require not more than 600 million board feet of timber annually, about half of the potential sustained yield.

High Costs Slow Mining

Since the frantic days of 1897-99 when the human tide swept northward through the Seattle gateway to pan for gold on the beach at Nome and along the banks of the Yukon, Alaska has given up nearly $750 million worth of the yellow metal. And not more than half of it has yet been mined. In all, about $1.2 billion worth of minerals have been taken out of Alaska since it was purchased from Russia in 1867 for $7 million.

Yet little is actually known of Alaska's mineral resources. Only 2% of the area has been covered by geological surveys. Besides the 31 strategic minerals that have been found, some in substantial quantities, there is evidence of a dozen or so more in varying amounts. Logging operations in the Panhandle and the hunt for oil elsewhere are expected to add greatly to the knowledge of Alaska's mineral wealth.

High transport and labor costs, and difficult working conditions such as permafrost in the north, have limited export production in the past to high-value, low-bulk minerals such as gold, silver, platinum, and high-grade copper. Coal for internal use has been mined for a number of years around Anchorage and Fairbanks. Recently Japanese steel interests have been studying the prospects of importing Alaskan coal. Freight costs would be less than half that paid on U.S. coal shipped from Hampton Roads.

Gold mining in Alaska is on its way out due to rising costs and the fixed price for bullion ($35 an ounce since 1934). The famous Alaska Juneau gold mine, largest hard-rock lode mine on the continent, has been closed for years. Placer mining—a mammouth dredging and sluicing operation which digests great quantities of gravel to sieve out the gold flakes—is more economical. But U.S. Smelting, Refining & Mining Co., the largest gold producer in Alaska today, is making plans to close down its dredging units at Fairbanks and Nome within the next couple of years. Despite these hard facts, Alaskan gold mining shares have been getting some play due to speculative interest in the future price of gold.

Growing Interest in Base Metals

With official encouragement, uranium prospecting proceeded at a feverish pace in Alaska for several years. Promising commercial grade deposits were located in 1955 on Prince of Wales Island in the Panhandle region. Adjacent claims have been leased to Climax Molybdenum and Union Carbide Nuclear for development. More recently, interest has shifted away from radioactives to base metals, a trend that will be reinforced by the recent AEC decision to stop contracting for additional supplies of uranium.

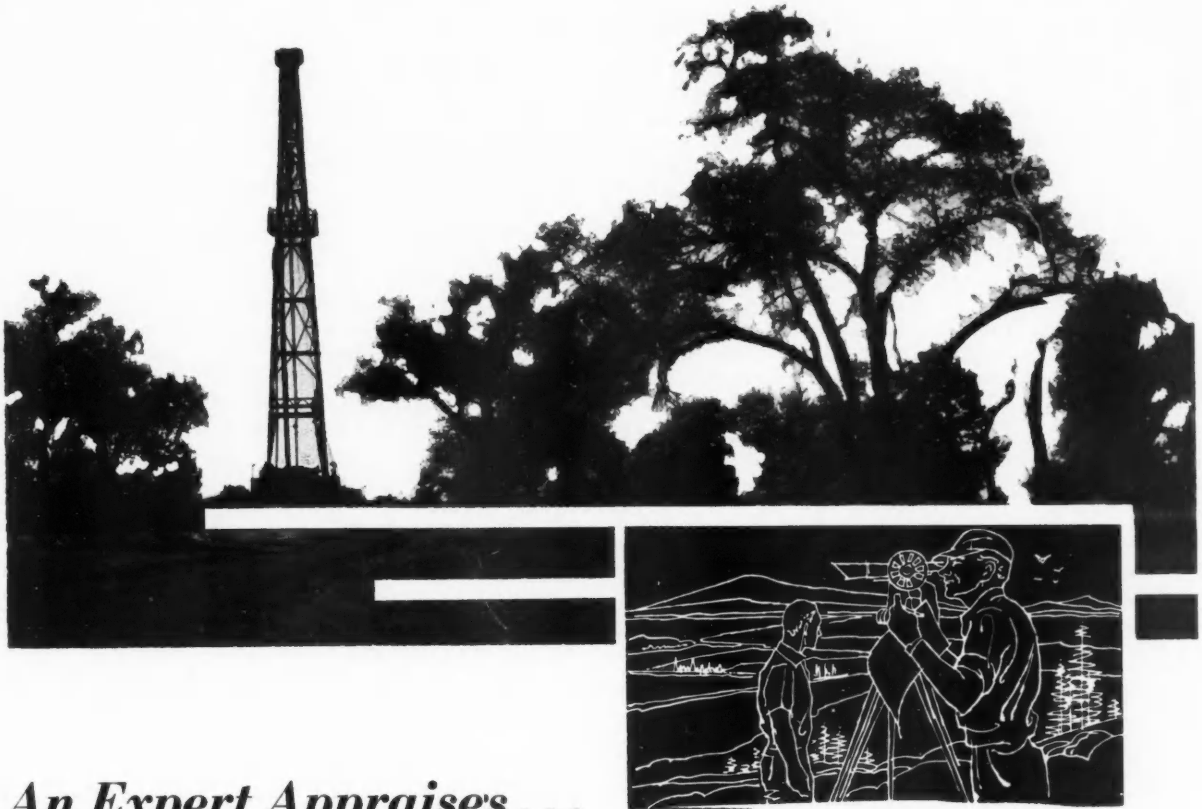
Copper has been Alaska's most widely sought base metal in recent years. Its production has a long history there, and now that price for the red metal has started to move up again some new claims may be worked. The famous Kennecott Copper Mine on the Copper River yielded more than $200 million worth of the metal during its 25-year life span. Kennecott has been doing helicopter prospecting in its old area, on the Gulf of Alaska, and Prince of Wales Island.

Among the base metals, the only ones at present being produced in significant quantity are chromite and mercury. Chromite has been mined sporadically for many years on the Kenai Peninsula, with recent output valued at about $1 million annually. The Kenai Chrome Company's new mill for concentrating ore will permit increased output through use of lower grade material.

The DeCoursey Company (Canadian owned) resumed production of mercury in the Kuskokwim River area in 1956 following a bad fire that had shut down operations. Because of high value, it is feasible to send mine output to Anchorage by air. Active prospecting continues in this western region and in the Seward Peninsula. The latter is one of the most highly mineralized sections of Alaska with copper, lead, platinum, gold, iron, tungsten, nickel, and antimony, plus the only known deposits of tin in the U.S.

With the gradual depletion of U.S. iron ore reserves and movement of the steel industry toward the West Coast, the search for iron ore in Alaska has intensified. Columbia Iron Mining Co. (a U.S. Steel subsidiary) has been making intensive studies

(Please turn to page 318)



An Expert Appraises . . .

The Interesting LAND AND ROYALTY COMPANIES

—— Which have already discounted inflation —— Which still have investment attraction

By Joseph Clark

BOTH speculator and investor alike have always been intrigued by the land and royalty company. In part, this fascination has been generated by the spectacular market appreciation of a relatively few land companies as a result of major oil or other mineral discoveries on their properties. These discoveries, more often than not, have required little or no effort on the landowner's part since they have stemmed from the exploratory work of others. Accordingly, the land companies have acquired an element of romance that appeals to the "pot of gold" psychology that is a part of all of us. Then too, it is difficult to forget that many of the great American fortunes have been built upon the foundation of real estate and land ownership.

As this article will be concerned primarily with land and royalty companies engaged in the oil business, it might be well at this point to define exactly what is meant by a land company in this context, and then to examine some of the assumptions that in recent years have tended to sharpen the more rational investor's interest in this type of company. For the purpose of this article, a land company may be defined as one owning mineral acreage, either producing or non-producing, on which working interest exploration and/or development is being carried on by others. While many operating companies own royalty production and undeveloped mineral acreage, only those whose royalty production represents more than one half of total production will be considered.

Inflation and the Royalty Company

While the pure royalty company certainly is not immune to the failure of crude oil prices to rise as fast as costs, the nature of a royalty operation bypasses many of the effects of the cost-price squeeze.

The royalty owner, unlike the operator and working interest owner of an oil property, is generally paid free of cost a fixed percentage of the crude oil and gas produced from his land. Thus, if his own overhead can be kept under control, he is relatively unaffected by rising operating and replacement costs. A second area where some land companies are able to increase earning power in a period of rising prices is through the ownership of fee acreage, or to put it more simply, real estate. Well selected income producing real estate has historically provided the owner with a suitable investment—and at other times with one of the most effective means of combatting inflation; values have generally moved in line with or in advance of rising price levels. For these reasons, the type of land company referred to in this story, and which in the past has appealed as much to the speculator as to the investor, may in the years to come gain increasing following from the rational investor on the soundest of economic grounds.

Investment and Speculative Media

Unfortunately, there are relatively few blue chip royalty companies available on the market with the necessary prerequisites of size and marketability to meet the standard of both investors and institutions. The best known in this country are Kern County Land, Louisiana Land and Exploration, and Southland Royalty. All three are of institutional calibre, none have any debt to speak of, another characteristic of the average land company—they range from Southland's market value of $65 million to Louisiana Land's $500 million, with Kern County lying midway between at $250 milion. These three leading companies are discussed in this article along with two smaller and lesser known land companies, Texas Pacific Land Trust ($21 million of market equity) and New Mexico and Arizona Land Company ($16 million). All five companies are traded on either the New York or American Stock Exchange.

Any discussion of oil royalty companies must include a consideration of income taxes. Operating oil companies are generally able to reduce taxable income by drilling wells, while the pure royalty company by definition incurs little or no exploration and development expense. In practice, the relatively high tax bracket of the pure royalty company has resulted in many such companies turning more and more to the active operational end of the oil business. Thus the pure royalty company now exists more in theory than in fact, and it will be seen that Kern County, Louisiana Land, and Southland all have become active, to a greater or lesser degree, in the drilling and working interest phase of the oil business.

Two Land Companies: A Contrast

The two smaller companies to be discussed in this article, New Mexico and Arizona Land and Texas Pacific Land Trust (actually a corporation from a tax standpoint), provide a striking illustration of two contrasting types of land companies. New Mexico is in its formative years, while Texas Pacific Land Trust is essentially a liquidating concern, although the analogy should not be carried to the point of implying that Texas Pacific does not have substantial undeveloped mineral potential.

New Mexico and Arizona Land Co. owns in fee some 718,000 acres of land in New Mexico and Arizona, and as a result of retaining mineral rights in lands sold, the mineral rights in 630,000 additional acres. Since oil or gas in commercial quantities has not yet been discovered on its properties, the Company has little earning power and is therefore a play on undeveloped mineral potential. Its principal income is derived from cattle grazing lease rentals and oil lease rentals and bonuses. Like most land companies, it is in excellent financial condition, with close to $2 million or $2.00 per share in net quick assets. The Company's most interesting acreage at the present time is located in the Black Mesa Basin of northeast Arizona and the Lucero Basin of west central New Mexico. While commercial oil or gas has never been discovered in either basin, both are virtually untested by the drill and have been the scene of active leasing programs by major and independent oil companies. This interest has been prompted by the discovery in recent years of prolific production to the north in the Paradox and San Juan Basins—the so-called Four Corners Area. Pan American Petroleum, a subsidiary of Standard Oil Company of Indiana, has leased 46,000 acres of the Company's 700,000 acres in the Black Mesa Basin. Pan American has committed itself to drill four wildcat tests on this acreage, with the first two due to start between now and March. In the Lucero Basin, where 385,000 acres are owned, the Company has leased large spreads to several independent operators, and an 8500 foot wildcat test is due to start in several months.

Obviously, the common stock of New Mexico and Arizona is speculative and cannot be appraised on the basis of current earnings. A more significant approach can be made by deducting from the Company's market equity value the assets that can be subjected to a reasonable evaluation. If the surface grazing rights could be sold for seven times current income, it is apparent that the Company's undeveloped mineral potential is being valued in the marketplace at roughly $10 per royalty acre.

In contrast to New Mexico and Arizona, all of whose acreage is still in an exploratory stage, some of **Texas Pacific Land's** acreage is located in the relatively mature Permian Basin of West Texas. Texas Pacific Land Trust, as presently constituted, is essentially a liquidating concern resulting from the spin-off of TXL Oil from the old Texas Pacific Land Trust in 1955. TXL has become an active producing company and the Land Trust has been left with the surface rights on some 1.7 million acres in West Texas, together with a 1/128 royalty in 85,000 producing acres, and a 1/16 royalty in about 400,000 acres, most of which are leased but non-producing. Like New Mexico and Arizona, Texas Pacific Land Trust derives income from grazing rentals, but its primary sources of income have been from surface acreage sales and from its producing royalty interests which have shown substantial growth in recent years. A significant portion of the 1/16 royalty acreage is concentrated in the largely undeveloped Delaware Basin located south and west of West Texas' Permian Basin. Until very recently exploratory drilling in the Delaware Basin had been disappointing. The lack of success was a complex of many

Statistics On Five Land and Royalty Companies

	Total Operating Revenue 1957 (Mil.)	Earnings Per Share 1954	1955	1956	1957	Est. 1958	Price Earnings Ratio 5 year Average 1954-58†	Price Earnings Ratio for 1958††	Recent Price	Price Range 1957-58	1958 Div. Share *	Div. Yield
Kern County Land	$36.9	$2.99	$2.95	2.94	$3.02	$2.90	16.0	22.4	65	66¾-32⅛	$2.25	3.4%
Louisiana Land & Exploration	35.4	1.45	1.50	1.64	2.16	2.00	22.2	28.0	56	61⅜-36⅜	1.50	2.6
New Mexico & Arizona Land	.2[2]	.08	.17	.08	.09	.11	215.4	154.5	17	19¾- 6⅜	—	—
Southland Royalty Co.	11.0	3.80	4.38	3.98	5.28	4.50	14.7	16.8	76	85½-51	3.00[1]	3.9
Texas Pacific Land Trust	.9	—	.28	.31	.31	.35	43.6	45.7	16	16⅜- 5⅝	.20	1.2

*—Based on latest dividend rate.
†—Based on annual average market price per share.
††—Based on estimated 1958, earnings per share at recent price.
[1]—Plus stock.
[2]—Total income

factors, among them the difficulty of obtaining reliable geophysical data and the extreme depth at which the potentially prolific horizons were located. However, in the past year drilling activity in the Delaware Basin has built up dramatically, largely as a result of numerous discoveries in the shallow Delaware Sand. At the present time, nearly 10% of the total active rigs in West Texas are located in the Delaware Basin.

Texas Pacific Land Trust releases no figures on its oil and gas reserves, and for this reason it is very difficult to make an accurate appraisal of its common stock. However, a good rule of thumb is that settled West Texas royalty production can be sold for roughly ten times annual income. On this basis, the Company's reserves would be conservatively worth on the order of $5.0 million. Guessing that the undeveloped royalty might be worth about $15 per full royalty acre, or $2.9 million, the current stock market is appraising the companies 1.9 million acres of real estate at somewhat under $7 per acre, a reasonable figure in light of recent land sales.

The Three Blue Chips

Much has been written and said about **Kern County, Louisiana Land,** and **Southland,** and it would be superfluous to add to the wealth of detailed information already in print. Perhaps it would be most useful to point out what appear to the writer the most significant investment considerations in each of these companies, in the hope that the interested reader will dig deeper for himself. Fundamental to an understanding of these three companies is the area in which each operates. Louisiana Land's 580,000 net acres of fee land and 130,000 acres of leased acreage in Southern Louisiana are located in probably the most prolific oil province in the United States. Because of the area's geological attractiveness, the Company is usually able to lease its acreage at twice the usual one-eighth landowner's royalty. Thus the 580,000 fee acres owned are equivalent to over one million royalty acres in most other areas. Further, in appraising the Company's undeveloped mineral potential, it should be recognized that producing formations in Southern Louisiana are piled on top of each other like a layer cake; hence the deeper potential of developed and producing acreage is as great if not greater than land as yet untouched by the drill. In general, it can be said that despite the active drilling of the past two decades, Louisiana Land's acreage still has as great a potential for additional reserves as any area in the country. This fact has, of course, not gone unnoticed by the stock market, and has been largely discounted.

Southland Royalty's 350,000 net royalty acres and 100,000 leasehold acres are located primarily in the Permian Basin of West Texas. This area is still very attractive from an exploratory standpoint, but has already been explored more intensively than Southern Louisiana and is believed to lack that area's potential for new reserves. In addition, Southland has entered foreign exploration in Panama and Alaska. The Company's first well in Panama was recently completed as a dry hole.

Kern County owns 375,000 acres of fee land in the county of the same name in Southern California. While the local producing formations have many of the characteristics of Southern Louisiana, the area probably has been explored more intensively than either Louisiana or the Permian Basin, and production has been in a flat trend for a number of years. As a result, until recent deep discoveries were made, it was felt that the area's mineral potential had been virtually exhausted. Richfield's major discoveries within the past year at San Emedio and North Tejon have completely changed the outlook for the area, and many competent geologists now feel that the Southern portion of the San Joaquin Valley, where Kern holds a virtual land monopoly, may be entering a new and dramatic exploration cycle. Drilling currently is more active than at any time in the past decade. In addition to its Kern County acreage, the Company owns over 1.5 million acres of fee property scattered throughout New Mexico, Arizona, and Oregon. Most of this land is used for cattle ranching and has limited value as prospective oil and gas acreage.

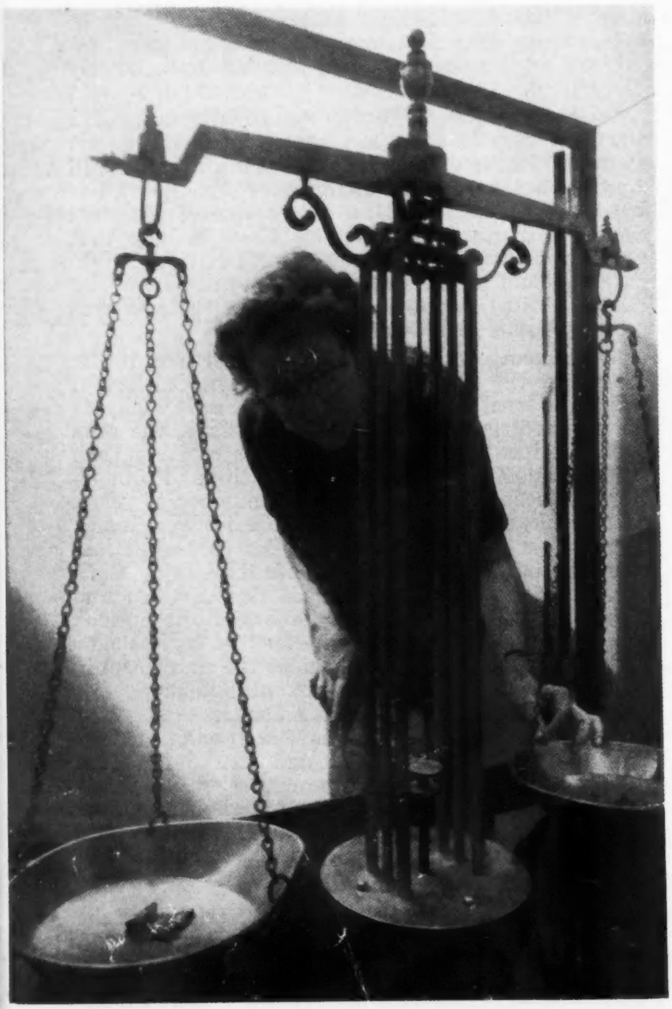
Turning from the geological characteristics of the acreage owned by Louisiana Land, Kern County, and Southland to the nature of their operations, it is evident that Kern *(Please turn to page 319)*

How much Glitter—
How much real value in...

THE GOLD STOCKS

—Appraising position of the American—Canadian—and African Gold Companies in the light of latest AEC Uranium Purchasing Policy—and diversification in various companies in related and unrelated fields.

By Frank Kiser, Jr.



A FEW weeks ago the Atomic Energy Commission announced that it would no longer guarantee to buy uranium from newly-developed ore. Withdrawol of this guarantee, which has underwritten the rapid expansion of the uranium industry in recent years, means that further growth of ore reserves will be at a greatly reduced rate, if not halted altogether, until there is either a reversal of the A.E.C.'s present policy or an emergence of substantial non-military markets for uranium, neither of which are good near-term possibilities.

Homestake Mining

Now what have the fortunes of uranium to do with gold mining? Nothing, on the surface, but Homestake Mining, the largest gold mine in North America and the last remaining U. S. gold producer of any real size, has become an important factor in uranium production. Since 1953, Homestake has been mining small wholly-owned uranium properties in Wyoming and Utah, but its entry into large-scale uranium operations occurred in 1956 when it acquired interests in two deposits which had been discovered by other groups in the Ambrosia Lake area of New Mexico, the leading uranium-producing center in the United States. Those deposits constitute two of the larger uranium mines in this country. To develop them, partnerships were formed and, despite being a latecomer to Ambrosia Lake, Homestake was given about a one-quarter interest in each partnership and became the general partner in each of them in charge of all operations.

One of the joint ventures, in which Homestake has a 25 per cent interest, is with Sabre-Pinon and is called Homestake-Sapin Partners. Reserves are estimated at more than 2.6 million tons running 0.27% in uranium content. Ore of this grade is about average for the United States, although it is much richer than ores in the other important uranium-mining nations of the Free World, Canada and

the Union of South Africa. Homestake-Sapin has a contract to sell a total of $79,775,000 of uranium concentrates to the Atomic Energy Commission by December 31, 1963.

It is worth noting that the announced reserves pertaining to both partnerships are just sufficient to fulfill present Government contracts. However, exploration of the two mines is far from complete, so it must be considered likely that large additional tonnages of uranium ore are yet to be discovered, both on Homestake-Sapin land and on the property of the other partnership, Homestake-New Mexico Partners.

This latter group, besides Homestake, includes United Western Minerals, J. H. Whitney & Co., White, Weld & Co., San Jacinto Petroleum, Clyde Osborn and Rio de Oro Uranium Mines. Homestake's interest in this endeavor is approximately 24.25 per cent. Reserves are placed at 1.2 million tons averaging 0.25% uranium. Total value of the Homestake-New Mexico contract amounts to $40,100,000, and the agreement runs until March 31, 1962. The A.E.C. has an option to extend this contract for five years, as well as an option to extend the Homestake-Sapin contract until December 31, 1966.

Although by withdrawing its uranium purchase guarantee, the A.E.C. has discouraged Homestake from proving up additional ore reserves for an indefinite period of time, conditions could change between now and 1962 or 1966, when the Government's iron-clad and conditional agreements, respectively, to buy uranium will have expired. Government stockpiles of uranium are believed to be bulging, and will grow still larger as American, Canadian and South African mines make scheduled deliveries under firm contracts in the next three or four years.

Current Setback For Uranium

With only a nominal civilian market in sight for the foreseeable future, uranium is in the doldrums both as a commodity and as a field for investment. Under these conditions, any important change in the situation during the next few years could well be for the better. There is no telling when scientific breakthroughs will be made on such things as atom-powered airplanes and economic atomic power generated by utilities, but that such breakthroughs will one day take place is practically inevitable. A more immediately realizable goal is the Navy's plan to make a large-scale conversion of ships to atomic power. As the potential new uses just mentioned, as well as others, are likely to be found for uranium, the very long-term prospects for this mineral appear good even now.

While the possible growth lying ahead for uranium could be an ultimate kicker in the Homestake situation, the company is still primarily a gold mine, and a very good one. Offering a moderate but steady yield, it provides the investor with strong participation in the gold industry through the medium of a good-quality common stock.

American South African

Until recently, there has not been a great deal of American participation in another strong segment of the worldwide gold mining industry, that of South Africa, due to lack of knowledge of the companies and relatively poor marketability of their shares in this country. The South American African Investment Co. was recently organized for the purpose of operating in these shares.

Being a foreign corporation and not planning to make any investments in this country, American-South African's earnings will not be subject to U.S. income taxes. Moreover, South Africa does not levy taxes on dividends received by such companies but it does tax capital gains. As an offsetting factor to such tax advantages is the hazard raised by the fact that the mines are located in areas where racial tensions are high (segregation is official Government policy)—where resentment of outside control of industry is increasing—and where something must ultimately be done to improve the lot of the natives if trouble is to be avoided.

Revised A.E.C. Purchasing Policy

Of the three leading gold-producing nations in the Free World, South Africa, Canada and the U.S., only Canadian mines have been unaffected by the

Essential Statistics on Leading Gold Producers

	Total Revenues 1957 (000)	Costs Per Ton (Milled)	Revenues Per Ton (Milled)	1957 Gold Prod. (000) (Oz.)	— Earnings Per Share — Year 1957	1st 9 Months 1957	1st 9 Months 1958	1958 Div. *	Recent Price	Div. Yield	Price Range 1957-1958
Amer.-South African Invest. Co.†	$—	$—	$—	—	$—	$—	$27.25[2]	$—	27⅝	—%	$— - —
Campbell Red Lake	4,856	8.34	18.94	144.5	.38	.29	.31	.33	9	3.6	9.50- 4.62
Dome Mines	5,733	7.85	8.23	169.8	.93	.64	.67	.70	17	4.1	17.87-11.00
Hollinger Cons. Gold Mines	12,531	5.92	9.67	20.3	1.58	.22[1]	.28[1]	.48	30	1.6	37.75-18.00
Homestake Mining Co.	20,250	6.45	11.74	554.9	1.12	1.56	1.59	2.00	40	5.0	45.00-32.12
Kerr-Addison Gold Mines	17,474	6.03	10.57	519.3	.97	.74	.73	.80	19	4.2	19.50-13.00
Mc Intyre Porcupine Mines	8,795	9.02	9.63	220.1	3.24	2.20	2.40	3.00	89	3.3	122.00-67.00

*—Based on latest dividend rate.
†—Company recently formed. Now listed on New York Stock Exchange.
[1]—6 months.
[2]—Net asset value per share as of Oct. 7, 1958.

new policy of the Atomic Energy Commission concerning guaranteed uranium purchases. Most Canadian mines are straight gold producers and, while many of them have been diversifying, they have no stake of any consequence in uranium.

On the other hand, South African gold mines' earnings from by-product uranium production have grown to important proportions in the last few years.

Gold mining has been a leading industry in South Africa virtually from the time the mineral was discovered there in the 1880's. The original gold-producing area, known as the Witwatersrand, is very extensive, covering a length of roughly 80 miles to the east and west of Johannesburg. In more recent years, large gold mining operations have been started to the south and southwest, and a small area to the east has shown promise of containing ore of commercial quality. While production in the newer fields has been rising at a faster pace, the mines on the Witwatersrand still provide the bulk of the nation's gold output.

South African gold mines, like those in the United States, operate without subsidy. Their production is sold, through the South African Reserve Bank, on the London gold market, where the price does not vary more than a few cents from $35 per ounce. Despite lack of Government aid, the South African gold industry as a whole has continued to record substantial earnings. As these mines have been beset with rising costs for labor and materials, much like the experience of producers in other parts of the world, their ability to earn good profits testifies to the fundamental strength of the established companies.

The Advent of Uranium

When uranium began to assume importance, South Africa's gold producers suddenly found themselves with another product to sell. In addition to the uranium in the ore brought up from the mine, they reclaimed the uranium which had previously been cast off on waste dumps and treated it in the mills, alongside newly-mined ore.

South Africa has huge tonnages of uranium-bearing rock. While the ore is very low in grade, the total amount of its uranium content ranks South Africa with the U. S. and Canada as one of the three leading nations in the Free World in point of uranium reserves. The Union's gold mines started producing uranium in the latter part of 1955. By the end of that year, output amounted to 3,647,000 pounds of uranium oxide, the concentrate which is later greatly refined to extract fissionable U-235. Last year, South African production totalled 11,398,000 pounds of uranium oxide, with slight additional gains in prospect in this and future years.

All of South Africa's uranium output is under contract to be sold to the Combined Development Agency, a joint unit of the American A.E.C and the English United Kingdom Atomic Energy Authority. These contracts run until 1963 with respect to some mines, and until 1966 for others, and contemplate that the maximum amount of uranium oxide to be sold in any one year will be 12,400,000 pounds.

Even before the recent A.E.C announcement, there was considerable uncertainty as to demand for uranium after the expiration of present Government contracts, and this uncertainty extended to all uranium producers, American and Canadian, as well as those in South Africa. The announcement, of course, darkened the picture still further. To the extent it affects South African mines, it warrants the inference that any new sales contracts with the United States may call for smaller quantities of uranium or, possibly, that new contracts may not even be made when the present ones expire.

At the same time, as is the case with Homestake in this country, it should be remembered that the most important commodity produced by the South African mines is gold.

Canadian Gold Mining

Canadian gold mines appear on their way to turning out a moderately higher volume of the precious metal this year than in 1957, when 4.4 milion ounces were produced. Also on the bright side has been a slowing down in the inflationary rise in costs, a decline in the premium on the Canadian dollar in relation to the U. S. dollar, and an increase in the Government subsidy. The lower premium means that the American dollar is worth more in terms of Canadian money. Virtually all Canadian gold is sold for $35 an ounce in U. S. funds.

The Canadian subsidy came into existence in 1948 with the enactment of the Emergency Gold Mining Assistance Act. This legislation, by which Canadian mines receive cash payments from the Government if their costs exceed $26.50 per ounce of gold produced (all but a few of them have costs higher than $26.50 per ounce), was designed to offset the effects of inflation on gold mining, an important Canadian industry. While inflation seems to have been checked for the present, first by the American recession, now by the budding recession in Europe and the abundance of industrial capacity in the western world militating against general increases in prices—gold mining assistance payments appear to be a more or less permanent fixture in the Canadian gold industry.

This year, the life of the Assistance Act was not only extended until the end of 1960, but payments under it were increased by 25 per cent. As a result, total Government aid to Canada's gold producers this year is estimated at $12 million, up $2.5 million from 1957. The total cost of combatting inflation in this manner since 1948 amounts to about $108 million.

While the small anticipated gain in output, the lower dollar premium and increased subsidy payments are all encouraging, they foreshadow something less than a striking improvement in the earnings for the Canadian gold mining industry as a whole. This is not to say that Canada's gold producers are unattractive from the investment viewpoint, but that these companies should be considered selectively. On that basis, interesting issues can be found among both large and small mines which are making substantial additions to reserves, increasing output sizably or, *(Please turn to page 317)*

Another Headache for . . . THE AIRLINES

—In addition to financing, labor grounds airlines with high cost of labor and reported exaggerated demands of $35,000 per year for pilots plus other benefits
—Salaries of management
—Where interests of the public — State and Federal taxpayers are ignored.
—Where disadvantage to airlines under government regulations — effects on airlines' position in bargaining with labor—Earnings record and threatened outlook

by Allen M. Smythe

IN a recent examination of the status and outlook of civilian airlines in the United States we enumerated some of the economic considerations that militate against economically tolerable operating conditions in the jet re-equipment stage of our domestic and foreign airlines. Since that article appeared we have seen developments which pose an additional problem: *Is the growth of commercial air traffic being jeopardized by a labor policy which employs punitive action where principles of across-the-table negotiation once ruled?* The airlines have good reason to be convinced that this is so. Not only are demanded pay scales rocketing to a point where a jet pilot can command a larger salary than a member of the Cabinet of the President of the United States, but also there appears a new tactic: Hit 'em when, and where, it hurts the most. Consider the current rash of strikes — timed to choke off air travel during a holiday period of normally lush business, giving the airlines no ready alternative but to pay up or see their substance ebb away.

Collective bargaining by pilot and mechanical unions appears to have ceased to be a matter of businesslike computation which weights against labor's demands the prospect of making enough revenue to cover other costs, attract investment capital as needed, and take advantage of technological advances. And, as an after-thought, to pay for the hire of invested money. It was no accident that the current series of strikes came in the Thanksgiving-Christmas-New Year period. These days are to civil aviation what Mother's Day is to the florist, Valentine's Day to the confectioner, and July 4th is to the maker of fire works. Fundamentally this presents a situation in which the right to obtain pay and other benefits becomes predicated not upon economic considerations but upon maneuvers falling little short of strong-arm methods.

The Rights of the Citizen — of Government

There is a third party to be considered in the impasse created by labor's astronomical demands: the air line customer. The use of federal charted

and protected lanes in the skies, and municipal financed landing fields, is a dedication by Government to the interests of the citizen, the customer. His interest may be in speedy, safe and regularly scheduled travel for pleasure, of for business. His right is implicit in the operation of the airline systems. But it is being ignored.

The federal government is now embarking on an expensive modernization of the airway system to furnish guidance and safety for the supersonic airliners of the future. The new jet airlines just going into operation are in the transonic stage but they need and must use this new system to maintain regular schedules.

Municipalities and states have bonded themselves to improve and enlarge their airports and lengthen the runways for the jet era. The new session of Congress is expected to enact legislation to aid municipalities in this effort. The citizenry of this nation are supporting these plans believing it will aid the material and economic welfare, and the national security of this country.

No other form of transportation has received such popular or financial support from the public. Unreasonable demands of labor that take advantage of this public good-will could cause Congress and local officials to make "an agonizing reappraisal" of this financial underwriting.

During the current strikes, which have hit the Capital hard, Washington newspapers printed dozens of letters from wives and other dependents of employees who were thrown out of work, furloughed, because the pilot would not fly and the mechanics walked off the jobs until their terms were met. The air travelling public was not pleased when the airlines had to close down operations because it wasn't safe to put planes with payloads into the air.

Consolidated Airline Industry Summary

(In Millions)

ITEM	1956	1957	First 6 months 1957	First 6 months 1958
Revenue Ton-Miles	3,527,437	4,032,265	1,920,585	1,928,560
Available Ton-Miles	6,087,060	7,122,017	3,426,966	3,573,047
Ton-mile Load Factor %	57.95	56.62	56.04	53.98
Revenue Passenger Miles	27,611,992	31,243,114	15,065,494	15,310,376
Available Seat-Miles	43,646,308	51,022,598	24,334,963	26,491,267
Passenger Load Factor %	63.26	61.23	61.91	57.79
Operating Revenues	$1,876,561	$2,114,889	$1,022,867	$1,071,258
Operating Expenses	$1,742,072	$2,050,557	$ 985,083	$1,060,790

The Pyramiding in Airline Costs

It is interesting to diagnose the earnings history of the airlines, in the light of the upward spiral in operating costs. Then, superimpose upon the latter the pay scales pilots and mechanics are today demanding, and consider the monumental task these carriers have, to raise additional cash for working capital and the new jet re-equipment program.

The scheduled airline industry is particularly concerned with inflation. As a relatively young industry undergoing dynamic change and growth, they are more vulnerable to its adverse effects than older firms and industries might be.

As in any other business, the airline industry buys and it sells. The prices of the products it must buy have increased much more rapidly than products for general consumption. For example, during the period 1947-1957, general consumer prices rose 22%. Consider the increases in airline costs: fuel, 40%; maintenance materials, 44%; and, perhaps most significant of all, wages up 78%. *However, the product that the airline industry sells, the service of air transportation, is virtually at the same price level that prevailed before World War II. In fact, the average fare today is only 1.9% higher than in 1938.*

The result of this substantial increase in the prices of the products bought by the airlines and the Government ceiling on fares is a dangerously low profit margin. And, it comes at a most critical period in air transportation history. Last year's net profit for the domestic trunk airlines was $26.5 million, or less than two cents on every dollar of sales. Compare it with results of just five years before. In 1952, with revenues only half what they were last year, the profit margin was seven cents on the sales dollar. Twice as much business — half as much profit. It is clear that inflation is taking its toll.

When the fiscal figures for

Airlines' Total Domestic 1958 Passenger Load Factor

Month	Revenue Passenger Load Factor: Monthly	Revenue Passenger Load Factor: 12 Months to date	Amount Change From Same Period Preceding Year: Monthly	Amount Change From Same Period Preceding Year: 12 Months to date
January	58.95	61.36	− 1.51	− 2.50
February	55.76	61.10	− 3.22	− 2.47
March	58.55	60.92	− 2.15	− 2.24
April	59.80	60.71	− 2.50	− 2.17
May	56.13	60.32	− 4.57	− 2.33
June	62.81	59.74	− 7.42	− 2.78
July	59.70	59.29	− 5.44	− 3.41
August	63.16	59.07	− 2.81	− 3.61
September	58.24	58.81	− 3.08	− 3.53
October	60.21	58.96	+ 1.78	− 2.99

Note: Domestic load factor in 1955 and 1956 was 64 percent, in 1957 61.6 percent.

this year are tabulated there will be no profit. Indeed several of the weaker airlines will have much greater losses. Their only hope of survival is based on the fact that after delivery of their jet planes there will be a great increase in air traffic and a sharp drop in operating cost. Union demands will partly offset the latter.

In the cost structure of the airline industry, the biggest item of expense by far is the payroll. The industry's $800 million annual payroll amounts to almost half (46.1%) of the total expense of running the airlines. The average annual wage in the airline industry — $5,474 — is well above the average in other transportation fields and in the nation generally. Also, the airlines rank in the upper half of industry generally in the matter of so-called "fringe benefits" to employees.

The High Earnings Brackets

The highest paid group of airline employees are the pilots who constitute less than 10% of the total airline work force but receive over 20% of the total payroll. Last year, salaries in excess of $20,000 were not uncommon among the pilots. A few made more than $25,000.

The estimated average for captains who flew as captains throughout the 12 months of the year was $17,718 in the domestic trunk industry and $22,288 in the international field. If copilots are included the averages will drop over $5,000. For the jet age we have just entered, the Air Line Pilots Association, the union representing pilots, is demanding an increase of up to $8,000 per year for pilots flying jet aircraft.

A pilot's salary, incidentally, includes compensation for many things. There is base pay, hourly pay, a day-night differential, mileage pay, terrain pay, off-shore pay, overseas pay, and minimum pay guarantees. Pilots also receive paid vacations, retirement and pension plans, free pass privileges, paid sick leave, group insurance, and unemployment insurance.

Recently a negotiating team for ALPA estimated that a salary that appeared to be $28,000 actually had a maximum potential value to a pilot of $37,556 when other factors such as pension and tax advantages on the pension, and the like, are included. All other professions requiring long years of study and preparation, are less remunerative than airline pilot.

The new Douglas DC-8 jet airliner has three times the seat mile capacity of the DC-7. It also costs three times as much. The pilots are not only asking for a healthy increase in salary for handling this plane but would like to see a third pilot aboard. The flight engineers are demanding —and getting— a substantial increase. The mechanics seem assured of increases well over the recommendations of the National Mediation Board and are suggesting tightening up of federal inspection regulations that will give importance to their jobs.

Working Capital Needs

The need for new working capital and greater depreciation charges have added to the financial

Trends in Load Factors for October Traffic

Carrier		Revenue Pass. Miles (000)	Available Seat Miles (000)	Load Factor %	% Change
American Airlines	1958	454,763	661,079	68.79	
	1957	428,108	697,661	61.36	+7.43
Eastern Airlines	1958	331,666	667,922	49.66	
	1957	342,756	583,479	58.74	−9.08
T.W.A. Airlines	1958	328,424	494,881	66.36	
	1957	313,053	550,926	56.82	+9.54
United Airlines	1958	432,772	673,731	64.23	
	1957	390,884	639,371	61.14	+3.09
BIG 4	1958	1,547,625	2,497,613	61.96	
Airlines	1957	1,474,801	2,471,437	59.67	+2.29
Braniff Airways	1958	80,868	132,066	61.23	
	1957	77,963	129,496	60.20	+1.03
Capital Airlines*	1958	76,366	120,108	63.58	
	1957	143,591	233,833	61.41	+2.17
Continental Air	1958	36,957	69,184	53.42	
	1957	34,085	67,023	50.86	+2.56
Delta Airlines	1958	115,743	194,729	59.44	
	1957	111,648	196,422	56.84	+2.60
National Airlines**	1958	58,153	117,371	49.55	
	1957	8,033	21,427	37.49	+12.06
Northeast Airlines	1958	24,383	68,108	35.80	
	1957	27,280	63,257	43.13	+7.33
Northwest Airlines	1958	99,766	170,355	58.56	
	1957	80,491	159,340	50.52	+8.04
Western Airlines	1958	62,200	121,800	51.07	
	1957	57,433	106,756	53.80	+2.73
8 SMALLER	1958	554,436	993,721	55.79	
AIRLINES	1957	540,524	977,554	55.29	+ .50
TOTAL OF ALL	1958	2,102,061	3,491,334	60.21	
	1957	2,015,325	3,448,991	58.43	+1.78

* Capital Load factor statistics for 16 days preceding strike.

** National Airlines Strike in 1957.

Note: October load factor showed first increase in two years.

problems of the airlines. New small turboprop planes like the Fairchild Friendship designed for the feeder airlines has hurt the sale of second hand airliners in that area. The European markets for used planes has also weakened.

To meet these financial burdens and pay increased labor costs the airlines with much greater seating capacity must not only generate more air traffic but must increase their load factor. They are counting on the increased comfort and speed to do this but realize that it will require greater efforts at sales promotion.

The long-range ten-mile-per-minute pure jet (turbojet) airliners like the Douglas DC-8 and the Boeing 707 that require two mile runways are expected to stimulate oversea, foreign, and coast-to-coast travel. Much of this air traffic is expected to be lost to steamships but much is expected to be new and repeat travel. Economical operation of schedules on routes of less distance than New York to Texas and the far west is not expected of this equipment.

The intermediate seven-miles-per-minute prop-jets (turboprops) like the Lockheed Electra will supplant much of the airlines present piston-engined equipment for shorter runs. This airliner operates on runways of 4500 feet and is economical in its use of fuel. Eastern Airlines has placed an order for 40 to be used on its New York-Florida flights.

Labor and Management Meet on Unequal Terms

In the normal meeting at the collective bargaining table, there are two sides: management and labor. From the long-range standpoint, it is most successful for both sides when there is an equal balance of strength; when neither party is outweighed by the economic resources of the other; when the rules of the game work out equitably for both sides.

Unfortunately, the factors prevailing at the collective bargaining table in the airline industry today, do not provide this balanced picture.

Though highly competitive, the airline industry is tightly regulated by the Federal Government. The airlines cannot increase, reduce or adjust their rates without approval of the Government. The industry cannot even hold joint discussions to simplify the rate or fare structures; in fact, they have recently been refused such permission.

Management Salaries

Another example concerns the salaries of the local service airline presidents. Until last September, the Civil Aeronautics Board recognized, for rate making purposes, a maximum salary for these top officials of $20,000, a figure exceeded by nearly 700 pilots of trunk airlines in 1957. In the future, the recognized maximum will be $25,000, or less than some of the jet age demands of ALPA.

In this tightly regulated industry, each certificated airline has a duty to provide adequate service to every point it is authorized to serve. To add a flight, withdraw a flight, or even change the times of a flight, an airline must file with the Government. It could lose its certificate, if, in the eyes of the Government, it is failing in its responsibility to provide adequate service. When a union threatens a strike or actually does strike, one of the first concerns of the company is this duty to serve the public.

Industry leaders claim the union negotiations refuse to consider earnings statements, taking the attitude that they could make a better bargain if the company were in receivership.

Several years ago an airline, taking a strike threat seriously, began to close down operations. Ironically, the union petitioned the Government to consider revoking the carrier's certificate for failure to serve the cities on its routes.

Basically, that is the situation on one side of the bargaining table. Now, what about the other side.

If you have an economically and politically powerful union that is able to operate under advantageous Federal laws without the same responsibilities that are imposed upon the companies by the Federal Government, then you would have a definite imbalance.

Such an imbalance exists today in the airline industry.

The airline pilots, the flight engineers and the airline mechanics, for example, belong to a labor organizations, national in scope and subject to relatively few legal restraints. *Their economic strength stems from the fact that they have strike benefit plans that are so liberal, compared to other unions, that they could well be considered unique.*

Recently, the National Industrial Conference Board made a survey of strike benefit plans. It concluded that "in certain instances . . . the disparity in power between the national union and the company is all in the union's favor." The Board found the Air Line Pilots Association's benefit plan to be head and shoulders over all others. An airline pilot out on strike may get as much as $650 per month in strike benefit pay.

Perhaps because of this generous strike benefit plan, the strike threat has become commonplace in negotiations with each airline. When a strike does occur in the airline industry, the product cannot be stockpiled for future sale as it can in many other types of business.

In addition, the publicizing of the strike threat can be used to attempt to drive customers away during the preliminary war of nerves. In a business as highly competitive as the air transport industry, the slightest hint of disrupted schedules, discontented employes, or let-down in safety precautions can have a terrific impact on any airline.

In this constant turmoil, an economically powerful union can employ the "whipsawing" technique so effective in railroad and maritime labor history. The technique calls for playing one airline off against another, and one concession against another. At a later date concessions made by the various individual carriers are consolidated into an agreement embodying all of the objectives that the union originally set out to attain.

Among the many factors that help to create the imbalance at the airline bargaining table there is also a concept, written into law many years ago, which is no longer consistent with the facts. That concept was expressed by the old National Labor

(Please turn to page 320)

Enterprises Whose Growth Has Been Achieved

— Without major outside financing
— mergers — or acquisitions

By J. C. White

VIGOROUS expansion of American industry has characterized the postwar decade. Public interest in securities markets has been roused in no small measure by spectacular growth of numerous individual corporations. In many instances exceptional gains in sales and earnings have been achieved by consolidations of competitors or by enlargement of activities in allied industrial areas. In less obvious cases significant progress has been attained by application of dynamic expansive efforts from within.

Because progress attained through ploughing back earnings attracts less attention than usually results from corporate mergers (See October 25, 1958 issue "Interesting New Mergers"), it seems appropriate to examine a few typical examples of seasoned companies which have prospered without resort to public financing or to any significant acquisitions in recent years.

Concerns which have shied away from the merger path toward "bigness" generally have been staffed with competent executive talent and have conserved capital in such a way that funds are available for enlargement of manufacturing and marketing operations. Growth obtained through generation of internal resources usually is slower than in cases of consolidations, but at the same time problems of overlapping activities and management readjustments are avoided. In the following discussion a diversity of companies wil be studied to suggest ways in which investors may evaluate growth potentials in corporate affairs where an intention to grow from within has been evidenced.

Aluminum Company of America stands out as the dominant factor in its rapidly growing industry in this country. Owner of substantial ore reserves in the U.S. as well as abroad, it is an integrated producer of raw materials plus a wide variety of finished products. In the last several years the company's output has represented slightly less than half of domestic volume—perhaps about 45 percent. Aggressive and imaginative sales planning raises the possibility that the motor car industry may adopt aluminum for engine blocks in the comparatively near future and may expand its use of this light metal in other fabrications. This holds the promise of further outstanding expansion in domestic require-

ments. Great enlargement of facilities in recent years, especialy since the Korean war, has intensified competition and acted as a restraint on prices. Alcoa's growth in earnings, however, has failed to keep pace with sales. Shipments fell about 13 per cent in the first nine months of this year and net profit dipped to $1.50 from $2.80 a share in the corresponding nine months of 1957. Because of the company's exceptionally strong financial position and promising long term growth outlook, the stock has long range appeal, though current quotations appear rather liberal. Alcoa may turn to stock acquisition as a means of further expansion as indicated by their agreement with British Aluminum Co., Ltd. to buy 4.5 million shares of unissued stock at $8.40 per share. However, this proposed step must be approved both by British Aluminum Co. shareholders and the government of Great Britain.

Campbell Soup Company is one of the largest processors of canned foods such as soups, spaghetti, vegetable juices, frozen prepared dinners, meat pies, etc. It is estimated that frozen food lines, acquired in the Swanson addition, account for about 14 per cent of volume, while canned soups, pork and beans, vegetable juices, etc., account for 85 per cent or more. Distribution is obtained through chain groceries and through wholesale grocers serving restaurants, as well as direct to industrial customers and government procurement agencies. The stock was made available for public participation only about five years ago. Earnings have fluctuated in a relatively narrow range as sales have continued to mount from year to year. A new record was set for the fiscal year ended July 31 at more than $501 million, while net profit rose to $2.95 a share from $2.80 in the preceding year. A well managed company but price discounts 1959 outlook.

Champion Paper & Fibre Company, concentrating on production of essential materials for rapidly expanding consumer items, has experienced outstanding gains in the field of printing and fine papers. Its products serve magazine publishers, catalog printers, manufacturers of food packages and a variety of other outlets requiring especially prepared paperboard or printing paper. Holdings of timber properties have been steadily enlarged and pulp-making mills have been established at strategically located points designed to serve markets in all sections of the country. Concentration of the latest types of machinery has helped sustain margins in the face of mounting production costs. Net profit suffered a setback in the fiscal year ended March 31, 1958, after a steady forward trend, and unfavorable comprisons continued through the first six months of the 1958-59 year, with earnings dipping to 73 cents a share from $1.31 a year earlier on slightly lower sales volume.

Coca-Cola Company is a dominant force in the soft drink industry. Vigorous competition and serious handicaps arising from inflationary economic trends have slowed its growth in the last decade, but signs of a more aggressive improvement are developing. The important teen-age market for soft drinks is expanding rapidly as a reflection of the rapid postwar population growth, and this is regarded as a promising omen. The industry has taken belated steps to bolster its price structure and, although the boost in retail prices checked consumer demand for a time, benefits are in sight in the coming year. Extremely unfavorable weather hampered sales in 1958, but a repetition of such adversity is not anticipated. Coca-Cola is counting on better-than-average improvement through introduction in key markets of "Fanta" fruit flavored beverages to supplement its famous "Coke" drink, especially in industrial plants and roadside coolers, as well as in pre-mixed dispensers. Earnings this year should compare favorably with the $7.07 a share for 1957 with a new record sales total. The stock has lagged marketwise for a long time because of sharper competition and leveling of earnings.

Cutler-Hammer, Inc., one of the foremost manufacturers of electrical control devices required in modern industrial plants, has enjoyed an expanding market for its principal lines as a consequence of the need for modernizing factories where automatic machinery is being installed to replace outmoded equipment. Mounting labor costs have dictated a policy of turning to automation as far as practical. Expensive equipment must be protected from accidents through use of control devices required for starting and stopping as well as for regulating electrically operated movements. More than half the company's volume is accounted for by capital goods programs, it is believed. Machinery manufacturers along with producers of motors, and radio and television sets are major customers. Sales are influenced importantly by plant modernization and expansion projects. With good second quarter sales, the company registered a small improvement in volume for the first nine months and showed net profit of $2.01 a share, against $3.53 in the same period a year ago. A rather fully appraised representative of the capital goods group, even allowing for promising growth potentials.

Fansteel Metallurgical Corporation is considered a leading producer of rare non-ferrous metals required in increasing volume in the electronic, aircraft and metalworking industries. Metals such as tantalum, tungsten and molybdenum are fabricated for manufacturers of tools and various types of equipment components. Rising volume in automotive and electronics plants found reflection in a higher rate of shipments in recent months. Earnings were adversely affected by a sharp decline in business in the first nine months. Inability to reduce costs in line with sales evidently shaved margins. Net profit dropped to 92 cents a share from $2.99 in the corresponding period of 1957. Although the stock commands a liberal evaluation of earnings. there seems to be some doubt as to whether current conditions warrant so much optimism.

Hershey Chocolate Corporation, probably one of the largest manufacturers in the world of chocolate and cocoa products, has concentrated on its specialty and has expanded from steady enlargement of the domestic market. Its best known products are candy bars and breakfast cocoa. Several types of candy are produced for the confectionery trade. Almond bars and cocoa are marketed widely in supermarkets. Profit margins are affected considerably by variations in prices of essential raw materials such as cocoa beans and sugar. Retail prices on candy bars are relatively rigid even though sizes can be

Companies With Internally Generated Growth

	Earnings Per Share 1956	Earnings Per Share 1957	1st 9 Months Net Sales 1957 (Millions)	1st 9 Months Net Sales 1958 (Millions)	1st 9 Months Earnings Per Share 1957	1st 9 Months Earnings Per Share 1958	Book Value Per Share 1957	High Price 1956 to 1958	Recent Price	1958 Div. Per Share *	Div. Yield
Aluminum Co. of Amer.	$4.24	$3.55	$656.0	$570.7	$2.80	$1.50	$33.27	133½	86	$1.20	1.4%
Campbell Soup	2.80[1]	2.95[1]	n.a.	n.a.	n.a.	n.a.	23.13[2]	50¾	46	1.50	3.2
Champion Paper & Fibre	3.14[6]	2.51[6]	84.2[3]	82.3[3]	1.31[3]	.73[3]	22.18	45	39	1.20	3.0
Coca-Cola	6.89	7.07	n.a.	n.a.	5.85	5.81	46.22	131½	121	5.00	4.1
Cutler-Hammer	5.23	4.51	58.0	58.9	3.53	2.01	31.14	65	60	2.00	3.3
Fansteel Metallurgical	4.20	3.74	25.0	18.8	3.99	.92	23.68	64⅞	48	1.00[4]	2.0
Hershey Chocolate	5.17	6.03	24.1	19.0	4.49	3.74	28.37	70½	66	3.15	4.7
Inland Steel	9.43	10.34	591.2	477.7	7.60	5.59	71.65	135½	133	4.50	3.3
Ingersoll Rand	5.96	6.01	n.a.	n.a.	4.59	3.33	24.07	101	97	4.00	4.1
Johnson & Johnson	2.44[5]	2.48[5]	198.5	197.7	2.04[5]	1.90[5]	23.48[5]	55¼[5]	48[5]	.95[5]	1.9
Otis Elevator	3.10	3.58	n.a.	n.a.	2.31	2.56	22.57	67¼	63	2.00	3.1
Pitney-Bowes	3.14	3.07	33.5	36.7	2.19	2.29	15.17	100	94	1.60[4]	1.6
Sunbeam Corp.	3.75[6]	3.03[6]	59.3	43.4	1.31[7]	.91[7]	20.31	65	64	1.65	2.5
Trane Co.	2.90	2.93	60.2	60.9	1.94	1.91	18.97	65½	64	.90	1.4
Zenith Radio	6.27	8.29	111.1	128.1	4.96	6.64	65.43	161½	160	6.00	3.7

*—Based on latest dividend rate.
n.a.—Not available.
1—Year ended July 31, 1957 & 1958.
2—As of 8/3/58.
3—6 months.
4—Plus stock.
5—Adjusted for 2½ for 1 stock split, subject to stockholders approval 12/19/58.
6—Year ended Mar. 31.
7—6 months.

adjusted to some extent. Fluctuations on other items are more easily changed to meet necessities. Sales have fluctuated around $150 million to $160 million annually and earnings have averaged between $4 and $5 a share in the last decade. Net profit fell to $3.74 a share from $4.49 in the first nine months of 1958, as against the same period last year. Reaching an all-time high recently, the stock hardly seems undervalued at the moment.

Ingersoll-Rand Company ranks as a leader in production of various kinds of rock drills, air compressors and gas engines together with air-conditioning equipment, pumps, etc., and other capital goods lines. Products find ready markets in heavy construction, in public utilities, in shipbuilding activities and in the petroleum and chemical industries. Growing use of machinery to replace manual operations in construction has opened new markets. Volume has expanded to record heights. The promising outlook for expansion in roadbuilding next year and a continued high level of construction suggest an encouraging improvement in sales and promise of wider margins. Net profit for the first nine months this year, reflecting a shrinkage in sales, fell back to $3.33 a share from $4.59 for the same period of 1957. Earnings next year could approach the 1957 peak of more than $6 a share. This stock would make a logical addition to a diversified portfolio if available at lower levels.

Inland Steel Company, eighth largest domestic producer, has experienced sustained growth primarily by aggressive efforts at controlling costs and by taking advantage of the steadily expanding market in its Chicago area. The company's strategic location has helped in no small measure to build up sales volume. Fortunately for the company, it may be noted that growth prospects for the area remain promising. Management's ability to tailor productive facilities closely to consumer requirements has helped to keep operations well above industry averages in periods of general reaction. Thus, operations this year should make a superior comparison with principal competitors. Earnings for the first nine months fell about 25 per cent to $5.59 a share from $7.60 in 1957, but full year's results should make a more favorable comparison. While this stock deserves consideration as one of the most strategically located, it is now amply priced.

Johnson & Johnson, one of the largest manufacturers in the world of surgical dressings, has been active in expanding its line of related drug accessory items in recent years. Some products are marketed not only in drug chains but in variety chains and supermarkets as well, accounting for substantial expansion in distribution. Among these having wide appeal are sanitary napkins, facial tissues, toothbrushes, mending tape and mucilage (distributed in small bottles). Sales have climbed steadily from year-to-year, reflecting introduction and promotion of new products. Leading customers include, in addition to wholesale druggists, hospitals, drug supply firms, chain retailers and government procurement agencies. On sales approximating those for the same period of 1957, the company has reported net profit for the first nine months this year of $4.74 a share, against $5.11 for the same period a year ago. In recognition of steady progress and the advance in price of outstanding shares, management has proposed a stock split of 2½ shares for 1. The dividend rate on the old stock was raised to 50 cents quarterly from 40 cents and further liberalization is in prospect. The shares have fully discounted the 1959 outlook.

Otis Elevator Company, considered the dominant factor in its industry, has concentrated on construction and installation of a variety of lifts. Aggressive merchandising has resulted in attainment of a strong competitive position. Products have been steadily improved as a consequence of consistent research. Although expansion in sales has not been spectacular, volume has improved appreciably in recent years. Billings increased in the first nine months this year by more than 11 per cent and appear likely to maintain *(Please turn to page 319)*

FOR PROFIT AND INCOME

Splits

Due to the advanced level of the market, there has been a recent marked increase in the number of stock splits, Those effected or proposed include Duquesne Light, Florida Power, Jewel Tea, Johnson & Johnson, Ideal Cement, General Cigar, Nopco Chemical, Oklahoma Natural Gas, Parke Davis, Pet Milk, U.S. Vitamin, Pfizer, and Pennsylvania Power & Light. Splits generally add to the psychological appeal of stocks; but you should keep in mind that they add nothing to real investment merit unless there is also an increase in cash dividend payments. The latter is so in most cases, but not all. It is difficult to see how splits of moderate priced stocks can serve any particularly useful purpose—except to facilitate equity financing. Here are current prices of some of the utilities above cited, in which splits are pending: Duquesne Light 49, Oklahoma Natural Gas 38, Pennsylvania Power & Light 56.

Candidates

Only in a few situations is it ever possible to say that a split appears probable within no great time, perhaps in a few months. The analyst can cite apparently logical possibilities for splits (conceding uncertainty as to timing), based on (1) a relatively high market price; and (2) the assumed leanings of management, as indicated by previous splits and the levels at which they were made. Using that simple approach, here are some "candidates" for splits or the equivalent in large stock dividends: Corning Glass Works, American Home Products, Eastman Kodak, Firestone Tire, First National Stores, Florida Power & Light, Goodyear Tire & Rubber, Gulf Oil, Zenith Radio, Inland Steel, and Sherwin-Williams. There are other instances in which, regardless of the past record, sharp growth, or merger deals or an apparent basis for altered management thinking could suggest possible splits. One of the latter, subject to much conjecture and guessing in recent months is American Telephone.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
American Viscose	Quart. Sept. 30	$ .48	$ .26
Continental Oil	Quart. Sept. 30	.66	.57
American Home Products	9 mos. Sept. 30	4.13	3.75
Wheeling Steel Corp.	Quar. Sept. 30	.72	.66
Beckman Instruments	Quar. Sept. 30	.45	.22
Merck & Co.	Quar. Sept. 30	.68	.56
Bridgeport Brass Co.	Quar Sept. 30	.66	.52
Brunswick-Balke-Collender	Quar. Sept. 30	4.31	2.36
Celanese Corp. of America	Quar. Sept. 30	.55	.30
National Steel Corp.	Quar. Sept. 30	1.47	1.08

Based on spectacular recent growth of sales and earnings, and a price around 83, Lorillard is a possibility. With earnings more than doubled in recent years and now in the vicinity of $7.50 a share, with the stock at 87, Reynolds Tobacco is another likely possibility, despite the fact that merger negotiation with Warner-Lambert have been terminated.

Cross-Currents

Stock groups performing better than the general market at this writing are principally radio-television, electronics, appliances, tires and rubber, meat packing, shipbuilding, food brands, department stores, machinery, bank stocks, electric utilities and variety chains. Among the current laggards are oils, coppers, coal, automobiles, farm equipment, steels and paper.

Oils

Measured by relation of output and inventories to indicated consumption, the statistical position of the oil industry is the best in some time. Probably the stocks have been lagging for "political" reasons—centering at home this time, instead of the Middle East or other potential foreign trouble spots. There is sure to be a renewed drive in Congress to cut the 27½% depletion allowance for tax purposes, an allowance far above the average for other extraction industries. It has a better chance of success, at least as applied to foreign production of U.S. international companies, than did previous efforts along the same lines, because of the increased weight of "liberal" Democrats in the new Congress. Also the threat of increases in sales taxes on gasoline in some states, including New York, must be reckoned with. It is doubtful that this would have a significantly repressive effect on consumption, since taxes on gasoline have been trending generally upward for many years. But if it has any effect, it could only be on the adverse side. Our view is that good oil stocks remain worth holding as long-term investments, but that there is no apparent need for haste as regards new buying. It will be some time before the new uncertainties, especially concerning the depletion allowance, are clarified.

Electronics

No doubt there is further growth ahead in the military and industrial uses of electronic equipment; and no doubt there will be a sizable 1959 recovery in the television-radio business, following poor results during the business recession. But the potentials could easily be exaggerated. Stocks in this group have had a relatively big recent speculative play which has in most cases run far ahead of probable improvement in earnings. Some issues, with low or non-existent earnings, are priced to a large extent on imagination and "possibilities". It can be argued that one should string along with a market vogue; but no warning bell will ring when a vogue is about played out. The stocks are generally high; new buying looks risky; late buyers are going to be hurt plenty when the vogue goes the usual way of virtually all previous ones in market history.

Missiles

There is also considerable interest in stocks of companies having something to do with missiles (aside from the electronic content thereof). This is especially so right after successful launching of some important test missile. It has been our view from the start, and still is, that nobody can figure which companies will make how much out of missile business, or when or for how long. We do not like speculating on guesswork.

Appliances

Sales of home appliances have improved substantially in recent weeks. Heretofore depressed, earnings in this field can be expected to make sharply improved comparisons in 1959. We continue to think that Whirlpool Corp., now around 29 and recommended here earlier at a lower level, is a better-than-average speculative choice and is reasonably priced on profit potentials for 1959.

Addenda

At this writing, most steel stocks are on the easing side. We continue to think that, in a generally high market, they are much less extremely priced, on possible 1959 earnings, than are many other stock groups. Of course, allowance has to be made for the possibility, if not probability, of a protracted strike after mid-year expiration of the present wage contract. But the market generally does not pay undue heed to strikes; and it will figure steel stock earnings ex-strike. There have already been substantial corrections in market prices of Armco, Bethlehem, Jones & Laughlin, Granite City and Youngstown—less for Republic and U.S. Steel. We repeat: take your choice and buy any of those named. We do not see any reason why they should become available at much lower prices any time soon.

Good

A partial list of stocks meeting above-average demand at this writing includes: Bausch & Lomb, Beneficial Finance, Celotex, Cleveland Electric, Emerson

(Please turn to page 320)

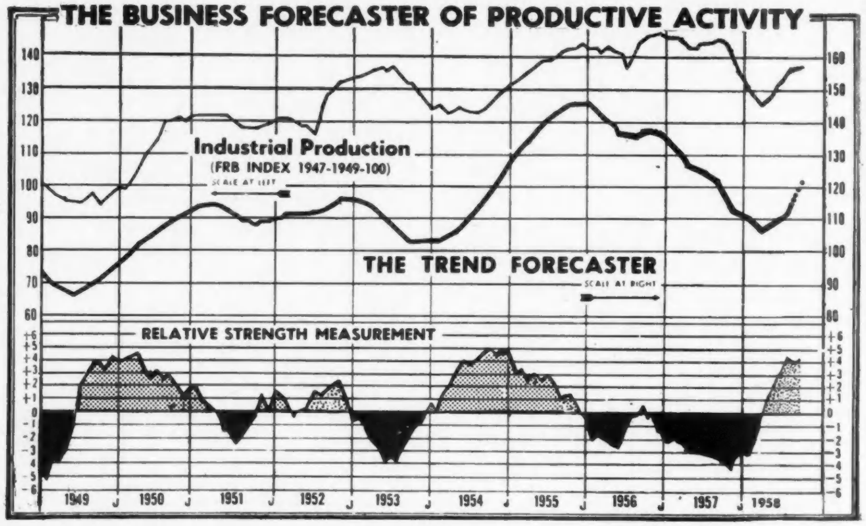
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Electric Auto-Lite	Quar. Sept. 30	$ .12	$ .48
Bethlehem Steel Corp.	Quart. Sept. 30	.55	.86
Fansteel Metallurgical	9 mos. Sept. 30	.92	2.89
Vanadium Corp. of Amer.	Quar. Sept. 30	.12	.70
Walworth Co.	Quar. Sept. 30	.02	.52
Arvin Industries	Quar. Sept. 30	.31	1.22
American Agricult. Chem.	Quar. Sept. 30	.01	.12
General Motors Corp.	Quar. Sept. 30	.22	.43
American Brake Shoe	Quar. Sept. 30	.27	1.00
Armco Steel Corp.	Quar. Sept. 30	.87	1.22

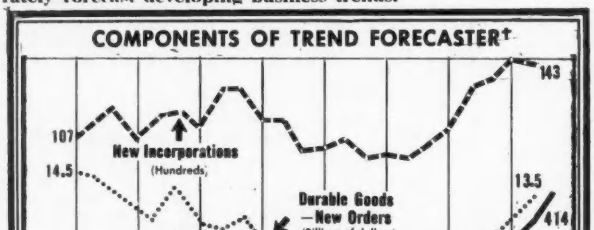
the Business

Business Trend Forecaster *

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.



*With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F.W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

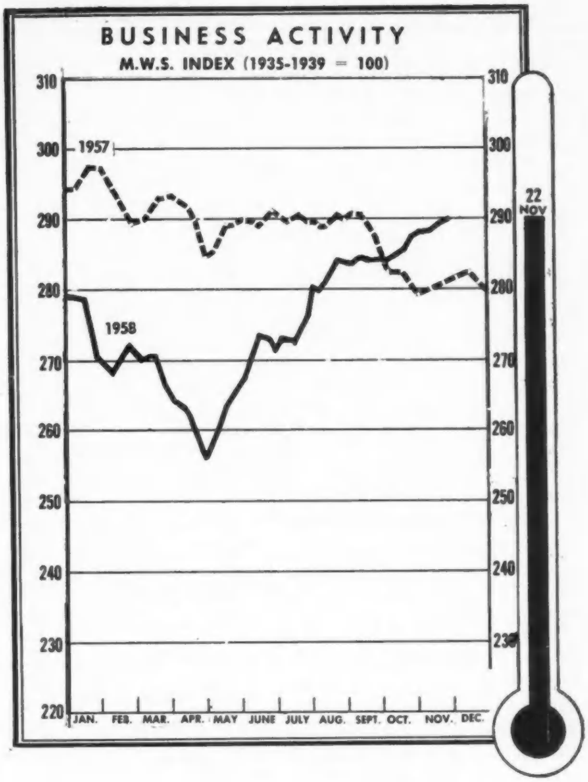
Current Indications of the Forecaster

The majority of the sensitive indicators remain in an upward trend as the year draws to a close. With the Relative Strength Measurement in the plus 4 area, continuing near-term business improvement is indicated

At the latest reading, the intermediate trends of 7 of the 8 components of the Forecaster are still in an advancing phase. New orders for durable goods, industrial raw material prices and housing starts have registered steady improvement while business failures (inverted) have moved irregularly higher and hours worked have resumed their rise after a temporary halt. New incorporations eased a bit in the latest month, from previous advanced levels, but the intermediate uptrend remains intact. Among the indicators, only nonresidential construction contracts have definitely entered a downward phase in recent months.

With the Trend Forecaster moving steadily higher and the Relative Strength Measurement remaining in the favorable plus 4 area, although no longer advancing rapidly, we can expect further gradual business improvement as the New Year gets under way.

Analyst



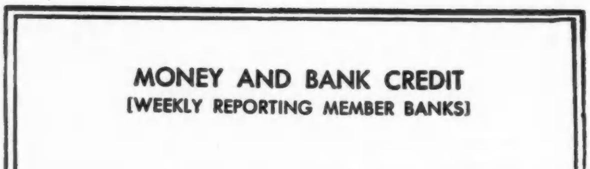
CONCLUSIONS IN BRIEF

PRODUCTION—Output rise to continue into early 1959, with demand being bolstered by some inventory rebuilding and an improvement in new orders for durable goods. Current level of auto production to be maintained into January.

TRADE—Retail sales remain strong, but accent is on soft goods. Auto sales temporarily swollen by sudden availability of new cars, previously in short supply. Retailers will experience a good Christmas, but demand for hard goods will remain well under boom levels.

MONEY AND CREDIT—Moderate corporate borrowing and continued consumer saving, providing funds for immediate credit needs. Treasury short term financing in the next few months should not greatly affect the current structure of interest rates.

COMMODITIES—Sensitive commodities turn downward in reaction to previous sharp speculative upturn. Heavy supplies to hold most prices near current level into early 1959, despite further business improvement.



ALTHOUGH business is moving along at a steady pace as winter approaches, many economists remain rather cautious regarding the strength and staying power of the current recovery. These doubts concern the longer-range outlook, rather than the short-term trend, which may continue upward for some months at least. The rising tendency of the near-term trend is confirmed by recent business statistics, notably in the case of the vitally important new orders figures. Manufacturers' incoming orders for durable goods have finally turned sharply upward in October, reaching $13.5 billion, a rate some 25% above the year's low and well ahead of shipments for the month. With new orders stimulating output several months hence, the short-term outlook is encouraging.

The cautious attitude of many competent observers in the face of current business strength, stems from a clear realization that basic underlying problems still cloud the longer-term outlook. They recognize that conditions today differ markedly from those existing in the previous post-war recoveries, when still-prevailing shortages, stemming from the war, added an urgent note to underlying demand. Large capital expenditures became necessary to supply sufficient capacity to satisfy post-war needs and this, combined with easy credit and government-sponsored stimulants, resulted in a long-sustained upward movement reaching boom proportions. Unfortunately, this kind of boom generates destructive forces, via top-heavy debt, creation of excess capacity and imbalances in prices and wages. Despite the use of

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Oct.	138	137	142
Durable Goods Mfr.	1947-'9-100	Oct.	145	145	156
Nondurable Goods Mfr.	1947-'9-100	Oct.	134	133	130
Mining	1947-'9-100	Oct.	121	122	127
RETAIL SALES*	$ Billions	Oct.	16.9	16.6	16.9
Durable Goods	$ Billions	Oct.	5.3	5.1	5.7
Nondurable Goods	$ Billions	Oct.	11.6	11.5	11.2
Dep't Store Sales	1947-'9-100	Oct.	135	136	129
MANUFACTURERS'					
New Orders—Total*	$ Billions	Oct.	27.8	27.0	26.2
Durable Goods	$ Billions	Oct.	13.5	12.8	12.2
Nondurable Goods	$ Billions	Oct.	14.3	14.2	14.1
Shipments*	$ Billions	Oct.	27.2	26.8	28.1
Durable Goods	$ Billions	Oct.	13.0	12.7	13.9
Nondurable Goods	$ Billions	Oct.	14.2	14.1	14.1
BUSINESS INVENTORIES, END MO.*	$ Billions	Oct.	84.8	85.0	91.1
Manufacturers'	$ Billions	Oct.	49.3	49.3	54.1
Wholesalers'	$ Billions	Oct.	12.1	12.1	12.8
Retailers'	$ Billions	Oct.	23.5	23.7	24.2
Dept. Store Stocks	1947-'9-100	Oct.	152	152	155
CONSTRUCTION TOTAL	$ Billions	Nov.	4.4	4.7	4.2
Private	$ Billions	Nov.	3.1	3.2	3.0
Residential	$ Billions	Nov.	1.7	1.8	1.5
All Other	$ Billions	Nov.	1.4	1.5	1.5
Housing Starts*—a	Thousands	Oct.	1260	1220	1020
Contract Awards, Residential—b	$ Millions	Oct.	1595	1460	1165
All Other—b	$ Millions	Oct.	1714	1756	1449
EMPLOYMENT					
Total Civilian	Millions	Oct.	65.3	64.6	66.0
Non-Farm	Millions	Oct.	51.2	51.2	52.6
Government	Millions	Oct.	8.1	8.0	7.7
Trade	Millions	Oct.	11.2	11.1	11.4
Factory	Millions	Oct.	11.8	11.9	12.9
Hours Worked	Hours	Oct.	39.6	39.9	39.5
Hourly Earnings	Dollars	Oct.	2.13	2.14	2.09
Weekly Earnings	Dollars	Oct.	84.35	85.39	82.56
PERSONAL INCOME*	$ Billions	Oct.	358	358	351
Wages & Salaries	$ Billions	Oct.	239	239	239
Proprietors' Incomes	$ Billions	Oct.	57	57	55
Interest & Dividends	$ Billions	Oct.	32	32	32
Transfer Payments	$ Billions	Oct.	27	27	23
Farm Income	$ Billions	Oct.	17	17	15
CONSUMER PRICES	1947-'9-100	Oct.	123.7	123.7	121.1
Food	1947-'9-100	Oct.	119.7	120.3	116.4
Clothing	1947-'9-100	Oct.	119.7	120.3	116.4
Housing	1947-'9-100	Oct.	127.9	127.9	126.6
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Oct.	110.0	108.9	106.5
Bank Debits*—g	$ Billions	Oct.	87.1	87.3	82.5
Business Loans Outstanding—c	$ Billions	Oct.	29.7	30.2	31.8
Instalment Credit Extended*	$ Billions	Oct.	3.5	3.3	3.5
Instalment Credit Repaid*	$ Billions	Oct.	3.4	3.4	3.4
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Oct.	2.8	7.2	3.1
Budget Expenditures	$ Billions	Oct.	7.1	6.6	6.5
Defense Expenditures	$ Billions	Oct.	4.2	3.8	3.6
Surplus (Def) cum from 7/1	$ Billions	Oct.	(8.8)	(4.5)	(5.9)

PRESENT POSITION AND OUTLOOK

hypodermics in 1955, by 1957 these imbalances had grown serious enough to force a sizeable set-back, but the ensuing recession did little to restore underlying economic health.

The basic forces of contraction are still with us today, beneath the surface of current improvement. The upturn itself lacks the powerful impetus of the previous post-war recovery periods. It has been too largely based on bigger government spending, both to counter recession and for increased defense. The gain in government spending buttressed consumer income, enabling producers to sharply reduce their stocks to the point where replenishment became essential. Swings in inventory, however, do not make for prolonged recovery and improvement based on governmental deficits is generally mistrusted by the business community. As a result, the rebound in business may begin to lose momentum relatively early in the recovery. At present, it is still difficult to determine how soon basic imbalances will outweigh the forces of expansion. For that reason, short-term trends should be watched carefully for signs of any weakening in the uptrend.

* * *

PERSONAL INCOME AND SPENDING—The moderate—and temporary—dip in personal income in October, evidently did not interfere with consumers' spending plans. Retail sales rose briskly that month, to approach the all-time highs registered in mid-1957. Consumers were still favoring nondurables however, while hard goods sales remained well below last year's records.

The mild October decline in income payments was the result of widespread strikes in the auto and related industries. Since then, production has mounted and the auto makers are working over-time to rebuild depleted dealer stocks. As a result, income payments have undoubtedly resumed their rise. The future rate at gain, however, may fail to match that attained in recent months. For one thing, transfer payments, which include unemployment insurance benefits are expected to decline in coming months and farm income is expected to falter. A slower advance in income could keep the public on the cautious side and prevent the splurge in durables which has been characteristic of previous recoveries.

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 III Quarter	1958 II Quarter	1958 I Quarter	1957 III Quarter
GROSS NATIONAL PRODUCT	439.0	429.0	425.8	445.6
Personal Consumption	291.5	288.3	286.2	288.3
Private Domestic Invest.	53.7	49.2	49.6	66.7
Net Foreign Investment	0.5	0.5	0.5	3.6
Government Purchases	93.3	90.9	89.5	87.0
Federal	53.4	51.9	50.9	50.9
State & Local	39.9	39.1	38.6	37.8
PERSONAL INCOME	357.5	349.8	347.3	351.8
Tax & Nontax Payments	43.5	42.3	42.3	43.1
Disposable Income	314.0	307.5	305.0	308.7
Consumption Expenditures	291.5	288.3	286.2	288.3
Personal Saving—d	22.5	19.2	18.8	20.4
CORPORATE PRE-TAX PROFITS	—	32.0	31.7	44.2
Corporate Taxes	—	16.3	16.1	22.0
Corporate Net Profit	—	15.7	15.5	22.1
Dividend Payments	—	12.4	12.5	12.7
Retained Earnings	—	3.3	3.0	9.4
PLANT & EQUIPMENT OUTLAYS		30.3	32.4	37.8

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Nov. 29	290.2	289.4	282.3
MWS Index—per capita*	1935-'9-100	Nov. 29	215.9	215.3	213.0
Steel Production	% of Capacity	Dec. 6	74.6	73.7	71.5
Auto and Truck Production	Thousands	Dec. 6	179	153	167
Paperboard Production	Thousand Tons	Nov. 29	286	306	269
Paperboard New Orders	Thousand Tons	Nov. 29	259	272	238
Electric Power Output*	1947-'49-100	Nov. 29	241.3	237.1	225.7
Freight Carloadings	Thousand Cars	Nov. 29	539	619	554
Engineering Constr. Awards	$ Millions	Dec. 1	399	273	201
Department Store Sales	1947-'9-100	Nov. 29	171	169	170
Demand Deposits—c	$ Billions	Nov. 26	57.3	56.8	55.5
Business Failures	Number	Nov. 27	244	260	235

PRESENT POSITION AND OUTLOOK

AUTOMOBILE OUTLOOK—Detroit is deriving some cheer from the recent retail sales figures for new cars. In the final 10 days of November, sales averaged 18,500 cars a day, the highest sales rate for any 10-day period this year and only 1.8% under the comparable 1957 period.

These sales figures, however, and those for the next few weeks, may prove to be misleading, as they are buttressed by a bunching of sales to early buyers who could not previously get the car of their choice because of dealer shortages. Until recently, dealer stocks were quite low, hampering the normal flow of sales. This has now been largely corrected with 500,000 cars in showrooms early in December.

Trade sources, meanwhile, have been busily at work, computing probable 1959 auto sales, using such factors as consumer income, cars on the road and the scrappage rate. Their forecasts have been in the 5½-6 million range, with about one-half million representing imports, but this industry has often erred on the optimistic side. If domestic car sales reach the indicated 5 million in 1959, this would be a definite improvement from 1958 results, but hardly high enough to add much stimulus to the business recovery.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958 High	1958 Range Low	1958 Nov. 28	1958 Dec. 5
300 Combined Average	418.2	283.9	417.2	418.2H
4 Agricultural Implements	351.1	196.5	345.6	351.1H
3 Air Cond. ('53 Cl.—100)	119.7	87.8	118.0	119.7H
9 Aircraft ('27 Cl.—100)	1247.4	982.2	1237.6	1227.8
7 Airlines ('27 Cl.—100)	993.7	638.8	987.8	993.7H
4 Aluminum ('53 Cl.—100)	435.8	253.4	410.5	402.9
6 Amusements	198.7	125.0	198.7	195.2
8 Automobile Accessories	398.6	298.9	398.6	398.6
6 Automobiles	92.2	40.8	92.2	89.9
4 Baking ('26 Cl.—100)	38.5	28.5	37.7	37.4
4 Business Machines	1209.2	898.2	1157.4	1191.9
6 Chemicals	684.4	509.5	663.8	658.7
5 Coal Mining	28.5	18.4	27.7	28.2
4 Communications	157.1	85.7	156.2	152.0
9 Construction	152.4	107.5	150.3	151.4
7 Containers	1105.6	707.3	1092.0	1098.7
7 Copper Mining	292.5	184.6	281.5	276.0
2 Dairy Products	147.7	115.6	144.3	144.3
6 Department Stores	117.9	78.9	117.2	117.9H
5 Drugs-Eth. ('53 Cl.—100)	408.8	217.2	385.4	408.8H
6 Elec. Eqp. ('53 Cl.—100)	264.2	195.8	254.7	264.2H
2 Finance Companies	747.2	568.8	702.6	724.9
6 Food Brands	395.8	255.5	388.3	390.8
3 Food Stores	260.5	182.2	255.1	255.1

(Nov. 14, 1936 Cl.—100)	High	Low	Nov. 28	Dec. 5
100 High Priced Stocks	261.4	189.7	257.6	259.9
100 Low Priced Stocks	555.3	334.7	554.7	555.3H
5 Gold Mining	839.5	530.5	762.2	839.5H
4 Investment Trusts	182.9	144.4	180.1	177.4
3 Liquor ('27 Cl.—100)	1531.3	913.4	1531.3	1522.4
8 Machinery	453.8	343.8	440.1	436.6
3 Mail Order	262.3	143.3	242.0	244.7
4 Meat Packing	203.1	123.6	199.8	203.1H
5 Metal Fabr. ('53 Cl.—100)	181.4	138.1	181.4	180.1
9 Metals, Miscellaneous	381.5	278.3	363.1	360.4
4 Paper	1170.1	841.8	1170.1	1161.7
22 Petroleum	835.4	629.7	829.0	822.5
21 Public Utilities	330.6	258.9	325.5	330.6
7 Railroad Equipment	84.4	59.2	82.2	81.1
20 Railroads	70.9	43.0	70.9	70.1
3 Soft Drinks	581.1	445.6	581.1	572.3
12 Steel & Iron	376.3	249.3	369.1	366.7
4 Sugar	141.3	102.8	129.4	129.4
2 Sulphur	828.5	543.4	769.3	753.2
10 TV & Radio ('27 Cl.—100)	66.1	28.8	64.5	66.1H
5 Textiles	174.6	106.9	174.6	167.8
3 Tires & Rubber	205.8	142.3	201.1	205.8
5 Tobacco	170.6	110.9	169.5	169.5
2 Variety Stores	318.3	239.3	318.3	316.1
17 Unclassif'd ('49 Cl.—100)	233.2	145.4	231.9	233.2H

H—New High for 1958.

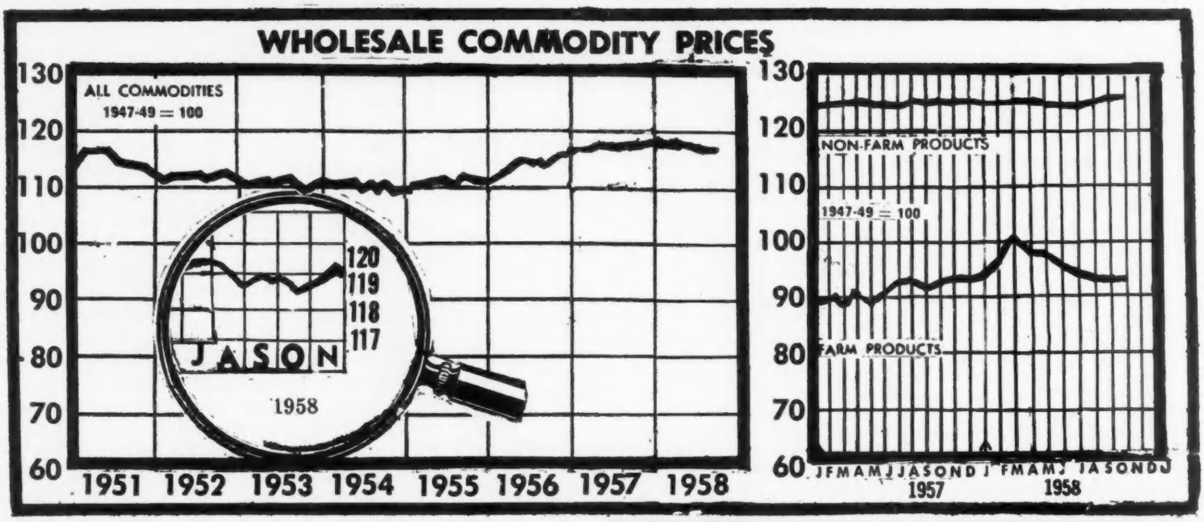
Trend of Commodities

SPOT MARKETS—Sensitive commodities were generally reactionary in the two weeks ending December 5. Evidently the sharp speculative run-ups that many commodities enjoyed in October and early November, had caused them to outrace the basic improvement in demand engendered by better business. The BLS index of 22 leading commodities fell 1.1% in the fortnight ending December 5, with all the major components of the index moving lower. Raw industrial materials fell 1.1% and metals were down 0.8%.

The broad range of commodities, meanwhile, were little changed, although farm products remained in a downward trend. The BLS comprehensive index of all commodities, other than farm products and foods, continued in the slow but persistent uptrend that has now been going on since mid-year, which some have called "creeping inflation".

FUTURES MARKETS—Futures prices were almost unanimously lower in the two weeks ending December 5. Sellers pressed offerings on the markets, as the speculative rally of recent weeks was wiped out. Farm products, imports like cocoa, coffee, rubber and raw materials, such as hides, copper, lead and zinc, all were lower. The Dow-Jones Commodity Futures Index lost 4.13 points to close at 150.73, less than a point above the year's low.

Wheat futures were down moderately during the period under review, with the March option losing 1 cent. The Government support program remains the major influence on prices, but reliable indications of the final size of impoundings will not be available for some weeks. Meanwhile, traders were bearishly influenced by signs of lagging exports and improved prospects for the 1959 crop.



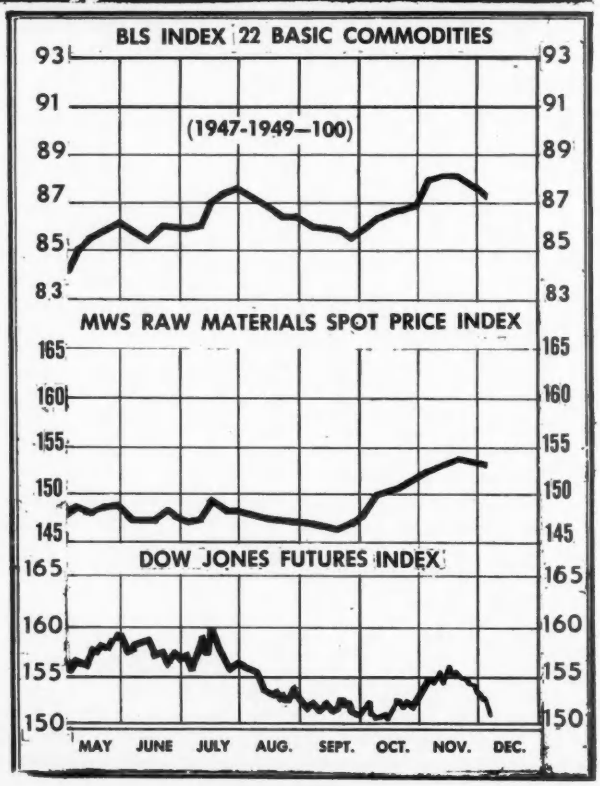
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Dec. 2	119.0	119.1	118.5	60.2
Farm Products	Dec. 2	91.2	91.9	92.6	51.0
Non-Farm Products	Dec. 2	126.9	126.8	126.1	67.0
22 Sensitive Commodities	Dec. 5	87.2	88.2	84.7	53.0
9 Foods	Dec. 5	82.9	83.9	85.5	46.5
13 Raw Ind'l. Materials	Dec. 5	90.1	91.1	84.0	58.3
5 Metals	Dec. 5	97.8	98.5	87.6	54.6
4 Textiles	Dec. 5	77.6	78.7	78.3	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1958	1957	1953	1951	1945	1941
High of Year	154.1	166.3	162.2	215.4	98.9	85.7
Low of Year	146.5	149.5	147.9	176.4	96.7	74.3
Close of Year		150.0	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1958	1957	1953	1951	1945	1941
High of Year	159.0	163.4	166.5	214.5	106.4	84.6
Low of Year	150.4	153.8	166.8	189.4	105.9	84.1
Close of Year		156.5	147.9	176.4	96.7	74.3



How Big a Prop to Prosperity Is Government Spending?

(Continued from page 285)

companies are going to pay more Federal tax in the future than they have in the past. A Ways & Means subcommittee has concluded public hearings. Legislation is being prepared. The core of the new bill will be a levy against profits of insurance companies in addition to that now made from investment activities. Sales of insurance policies, for example.

Thumbs Down on Foreign Aid Giveway

While some White House sources suggest that an even larger Foreign Aid budget will be asked for next year, opposition already is firming to continuing give-away, even on its present scale. The Ways & Means Committee will mark time while Congressional sentiment forms for creation of instrumentalities to promote more private investment in foreign countries. (To what extent will government underwrite the risks?) There is reason to believe that many beneficiary nations would rather receive an investment dollar than a U.S. gift dollar. There was little incentive, and much danger, in foreign investments when the Marshall Plan came into existence. The climate today is better. It could be further improved by Government guarantees to reassure private industry and private lending institutions. Aid programs must end some day. An effective beginning for the substitute method would save taxpayers billions, bring Treasury income closer to outgo and work against annual deficits.

It might even make a start toward little-remembered practice of making annual reductions in national debt.

The relationship between budgets at or near their present level and general business health is clearly recognized by Congressman Mills. But he realizes that there is missionary work ahead if the program of cutting expenditures "for the record" is to be forestalled. "I think," commented the tax committee leader, "it is not sufficiently appreciated that well-chosen and worthwhile government expenditure programs can make a major contribution to economic growth. Our national economic accounting systems do not attach a value to the asssets that the government acquires in the same way that it attaches a value to private investment assets. Certainly the greatest asset that we could acquire at this time would be international peace. No such asset could be subjected to a financial evaluation."

"To illustrate this point, consider that to the extent that we provide for adequate defense, we protect our economy from the devastation of war, and thus increase its real value. Any factory has a good deal of fire protection provided in its design and this fire protection costs money. Without the fire protection the owner could have used his money to build a bigger factory. He considers the smaller factory with the fire protection a better investment. We are faced with the same sort of choice in national policy, namely how much defense insurance do we need. It is obvious that we do not get more real growth by cutting down on defense insurance that is required."

Chairman Mills considers the problem which faces, in the first instance, the tax-laying and appropriations committees and then Congress as a whole, is not "blindly cutting expenditures as such; our problem is rather evaluating expenditures programs."

One of the most promising of Mills' pre-session observations, however, is this: "For the past several years there has been too much talk about merely cutting expenditures without obtaining results and not nearly enough talk on the subject of whether or not we should eliminate any of the specific things that the government is requested to do."

Taking Government Out of Business and adding New Taxpayers

The Congressman has made it clear by statement and reiteration that he does not direct this thinking to defense. That would appear to leave not only the hundreds of establishments now operated by government in competition with private industry (with attendant plant, payroll and overhead costs, and loss of taxes private operation would bring in), but might even include public power projects. *It conjures up thoughts of disposal of TVA and other public power empires, by sale to private business which would then be fully taxed on operations and incomes — billions of revenue on the sale, and lesser amounts, but still billions, in tax revenue over the years.*

It also calls for a close and critical look at costly ventures such as an overlapping national system of education, clearing purely local neighborhoods and substituting "projects" which are costly in their inception and result in dislocation of local mercantile business almost without fail—killing off one neighborhood by creating another nearby.

We have had our fill of phony budgets with built-in deficits. And we cannot interpret the Democratic party's sweep in the November election as a mandate for a great social program, especially if the costs are to be obscured in a budget which makes only the down payment and burdens coming generations.

Nor should we be stampeded into huge defense expenditures by Russia's war-of-nerves. More than ever is it important for us to make everything count and carefully appraise and reappraise the specifics of our actual needs. By using the initiative and resourcefulness that is native to Americans, we can find ways to live within our means, especially if Congress keeps its promise to revamp the tax structure—limit non-taxable government enterprises, make taxable, organizations which are not paying taxes on their profits now—and gather levies in certain areas which have been escaping payments through technicalities. With that out of the way we will know how to proceed to carry out our obligation to our country—to our citizens—and be able to run our affairs on a pay-as-you-go basis. This would not only serve us well, but would provide a strong safeguard and means of warding off economic blows aimed at us in the cold war. END

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Eastman Kodak

"I am a young business executive with good present and prospective earning power and have some shares in Eastman Kodak purchased at a lower level. As my primary investment objective is long term growth, shall I hold the stock or accept profit now?"

E.R., Redlands, California

Eastman Kodak, the dominant producer of both photographic equipment and supplies has expanded into other lines including professional motion picture film, textile yarns, chemicals and also is active in our defense program. Although the stock has advanced substantially in recent years, it continues to offer good long term growth prospects and an investor with this primary investment objective can retain his shares for the long term.

Sales of Eastman Kodak for the three quarters this year were better than last year, as sales in each quarter were up a little from a year ago. Total earnings for the three quarters were moderately lower than last year. There has been a continuing improvement since the first quarter, however, when net earnings were considerably below last year's figures. In the second quarter earnings almost equalled those of a year ago and in the third quarter were slightly higher than last year.

Consolidated sales of the company's U.S. units for the third quarter (12 weeks ended September 7) were $197,385,399, about 2% more than the $193,494,157 for the third quarter. Net earnings for the third quarter were $26,299,098, up about 3% from the $25,434,611 for the corresponding period last year. Third quarter net earnings equalled $1.37 per common share this year and $1.32 a share last year.

Company's sales for the 36 weeks ended September 7 amounted to $551,006,974, about 2% above the $541,471,866 for the same interval in 1957. Net earnings after taxes for the three quarters were $63,629,367, about 3% lower than 1957 three quarter total of $65,655,957. Net earnings for the three quarters were equal to $3.30 per common share, compared with $3.40 a year ago. They were 11.5% of sales this year against 12.1% last year.

Although sales trends of the company's various product lines have been mixed this year, total sales have held up rather well in a period of economic recession. Earnings have been steadily improving from a low point early this year. With the general business recovery underway, and with the company's numerous new products and its intensive merchandising efforts, the outlook for the balance of the year appears favorable.

Working capital at the end of the third quarter, including marketable securities at cost, was about $312 million, an increase of about 18 million since the first of this year.

Films, papers, and chemicals for amateur color photography—for both still pictures and home movies — made strong sales advances in the first three quarters. Sales of graphic arts films and X-Ray films increased modestly. Professional still and motion picture film had moderately lower sales than a year ago. Matrix paper for the Verifax Office Copier continue to make substantial sales gains.

The company's total business with the Government and defense contractors amounted to $38.6 million, about $1.6 million less than a year ago at this time. It comprised 7% of consolidated sales, compared with 7½% at the three quarters mark last year.

Among the products of the Tennessee Eastman division, Estron fibre for use in cigarette filters continued to make good sales gains. Sales of Estron and Chromspun acetate yarn for textile use were higher than in the first three quarters a year ago. Total sales of man-made fibres included a new acrylic fibre introduced about a year ago. Industrial chemicals and dyes manufactured by Tennessee Eastman continue to make favorable sales advances. Sales of plastic products made modest gains for the three quarters, as did the industrial chemicals of the Texas division.

Recordak Corp., the company unit in the microfilming field, had a good third quarter, and its three quarter sales total shows a favorable increase.

Sales to export dealers and to associated companies in other countries increased about 3% over the similar period of 1957. Export sales accounted for about 10% of consolidated sales.

(Please turn to page 322)

Possible Treasury Crisis Looming

(Continued from page 278)

for cash since July come due in 1959. Counting other short-term securities put out on refundings, the volume of marketable Treasury securities requiring refinancing during 1959 (excluding regular 91-day Treasury bills) has been increased from \$16.9 billion as it stood on June 30 to \$52.7 billion as of December 31. As the table shows on page 278, total interest-bearing Treasury debt due within a year will be no less than \$124 billion on December 31.

Ironically, in view of the Treasury's policy of putting off its financing problems, market conditions now are probably better than they will be when these massive maturities force the Treasury into the market.

From the Frying Pan

The odds are all too good that the Treasury is getting ready to move from the frying pan into the fire. The policy of putting out short-term issues makes sense only on the premise that market conditions will be more inviting for longer-term financing next year. But with business conditions improving it is hard to believe that the passage of time will bring a market eager for Treasury offerings.

There is little support for the idea that private demands for money are going to let up, at least in the long-term area. Corporate demands for long-term funds are likely to approach their 1958 level, though more money may be taken up on stock issues if the equity market continues buoyant. The calendar of prospective corporate bond issues has been down to around \$1 billion for some weeks now but a number of issues are waiting on the sidelines for improved market conditions. This should keep corporate borrowing rates from declining appreciably from the current $4\frac{3}{8}$ to $4\frac{5}{8}\%$ range on high quality issues.

The mortgage market clearly is going to take all the money it can get. Any tendencies for rates to ease on bonds will find the big institutional investors shifting funds into mortgages at net yields of around $4\frac{1}{2}\%$ on FHA insured loans and $5\frac{1}{4}$ or $5\frac{1}{2}\%$ on conventional loans.

Meanwhile state and local government borrowings may exceed the record \$8 billion which is in prospect for 1958. In the November elections voters approved another \$1.7 billion of new issues, raising the total backlog of municipal financing (as calculated by the Bond Buyer) to a record \$13.6 billion.

The Treasury may be counting on the banks to provide a last resort market but this is unlikely in the absence of an easier Federal Reserve credit policy. It is true that business loan demands at the banks have been lagging. But bank mortgage loans have increased at a record pace this fall and consumer loans are also rising strongly. As a matter of fact the banks are in a tighter position than most people realize. The ratio of loans to deposits—a banker's measure to tell him how "loaned up" he is—now stands at 59% in New York, against 46% at this stage of recovery from the 1954 recession and 66% at the peak of tightness experienced in 1957.

Furthermore, any rise in loan demands which forced the banks to sell securities could quickly develop an acute sense of pressure in the markets with consequent rapid rises in interest rates. It must not be forgotten that the shakeout in the bond market has left a legacy of 5 to 12 point discounts on bank bond portfolios; in the comparable stage of the recovery from the 1954 recession, the $3\frac{1}{4}$s of 1983 were still at a 6 point premium; other issues were only slightly below par.

It is hard to escape the conclusion that the longer the Treasury waits to undertake longer-term financing, the harder it may be.

Why Not Issue Bonds?

Shaken by the debacle in the bond market last summer, the Treasury is fearful of a lack of investor interest in its bonds. Fear of a cool reception has counseled delay even when market conditions were perceptibly better. There is also some concern about disturbing the market for other borrowers and possibly

holding back the business recovery. And last, but not least, there is a feeling that the interest rates that might have to be paid to sell long-term bonds are too high, both in relation to what has been paid by the Treasury in the past, and what is being currently paid by other borrowers.

The time has come to reconsider these views. An unenthusiastic reception for a new Treasury bond could hardly be more embarrassing than the spectacle of the world's greatest power afraid to offer bonds for fear its citizens won't take them up. The Treasury's concern for other borrowers is a little overdone; there is something ludicrous in the posture of the Treasury waiting for a "better market" while corporations, states and local governments, and foreign governments of far lower credit standing float billions of long-term securities. It is time we recognized that the U. S. Treasury need not always stand at the end of the line.

The biggest obstacle to an effective program of offering Treasury bonds is the question of what is a fair rate to pay. People who are willing to pay whatever it costs to get the best missiles, rockets and airplanes feel that there is something shameful about paying more interest to sell U. S. bonds. Any proposal to raise interest rates on Treasury bond offerings brings agitated talk of the credit of the United States Government having deteriorated. It would be foolish to expect the Treasury to ignore this popular feeling, particularly since such views are widely held in the Congress.

But perhaps the time has come for everyone, including the Congress, to take another look at what it is proper for the Treasury to pay in order to keep its debt in good, workmanlike order.

New Environment for Bonds

The case for offering Treasury bonds at whatever interest rate it takes to sell them is that times and conditions change and the old yardsticks which we carry in the laws and in our memories really don't apply anymore. In short, there is a new environment for bonds now and we ought to take account of it.

At present the Treasury cannot legally pay more than 4¼% on a bond issue, a limitation which Congress imposed in the first World War. At the moment the Treasury probably could sell a bond at 4% within the limit, but other objections arise. Many people feel that the U. S. Treasury, as a matter of right, should be able to sell its bonds at rates at least 1% cheaper than Standard Oil or General Motors might have to pay. (Back in the 1920's Treasuries traded to yield as much as 1¼ or 1⅜% less than Aaa-rated coporates.) Whenever, as in November, the Treasury might have to pay within ¼ or ½% of what a major corporation could borrow at, these people feel rates are too far out of line and borrowing should be deferred.

What needs to be remembered in evaluating these views is that the 4¼% interest rate limitation on Treasury bonds, for example, was set when the national debt was only $21 billion and made up, over the entire following decade, no more than 10 to 20% of total public and private debt. Furthermore, the national debt was being paid off throughout the 1920's; far from pressing on the markets, Treasury obligations were in scarce supply. Finally, creeping inflation had not yet become a household word; the price level declined throughout the '20s and people expected to get back the real value of their principal intact. With all this it is not surprising that Treasury bonds could sell more than 1% below the yield on prime corporate obligations. But it is surprising, in view of current thinking, that Treasuries would trade in the market to yield as much as 4 or 5%.

Turning to the situation today, is it reasonable to think that a 4¼% rate limitation is still appropriate or that the Treasury still should be able to sell its securities at yields 1% or more below the cheapest corporate borrowing rate. After all, the national debt has increased more than tenfold to $283 billion and no one can say when it will stop rising. It now makes up more than one third of total public and private debt, against about 8% in 1930. Moreover, people now expect that creeping inflation will cut the value of money invested in bonds by 2 or 3% a year and want protection in the form of somewhat higher interest.

All of this has taken place against the background of broader changes which have reduced the attractiveness of bonds generally. Bonds originally were designed to supply an investment medium as free of risk as possible, and therein lay their attraction to the investor. Governmental full employment policies since World War II have been aimed at taking risk out of the economy. They will never entirely succeed of course but most people, rightly or wrongly, feel that the Government has had some success in its endeavors. The fact that the three postwar recessions were minor in impact is cited in support of this view. As the economy becomes less risky for business and investments, bonds lose some of their special appeal as a hedge against risk. Formerly risky investments (common stocks) become relatively more attractive.

There is little doubt that even without creeping inflation, the broad drift of the new economy we have is growing demand for stocks and lagging demand for bond investments. This can be expected to continue until we have a sizeable business setback.

Implications for Treasury Financing

The fact is that Treasury bill financing is merely deferring a painful problem to a point where it probably will be still more painful. Permanent additions to the national debt eventually have to be financed in a permanent way. It will be foolish for the Treasury to wait until the market, by its refusal to take any more short-term issues, forces a debt crisis.

The better way is for the Treasury to begin at once, in January, with modest offerings of Treasury bonds at competitive rates and carry the process to a point where Treasury bonds regain a respected place in investment portfolios. If this requires the Treasury to pay 4⅛% when Standard Oil is paying only 4¼%, this is no discredit to the Treasury but merely recognition by the market that a government full employment policy puts the Treasury's credit behind every major business concern. Congress can help the Treasury by acting

to increase the interest rate limit on bonds when and if that becomes necessary.

The effective way for Congress and the Treasury to hold interest rates and interest costs down is to get the budget under control, hold back inflation and reduce the debt to make Treasury issues scarce once more. The time to start is now. END

How Much Glitter — How Much Real Value In . . . THE GOLD STOCKS?

(Continued from page 298)

for the longer term, working on favorable diversification moves

Kerr-Addison, with extensive reserves, is the largest gold producer in Canada. Low costs make the company one of the few unsubsidized Canadian gold mines. Whereas subsidized mines, as a condition to receiving cost-aid payments, are required to sell their output to the Canadian mint at $35 (U.S.) per ounce, Kerr-Addison is able to sell gold on the open market. For the last five years, this advantage has been more theoretical than real, since the free market price has been roughly in line with the official U.S. Government price, but if international uncertainties or psychological factors should again force the free price up, Kerr-Addison would be in a more favorable position.

Two of the other leading Canadian mines, **Dome** and **Campbell Red Lake,** are closely associated with each other, in that Dome controls Campbell. However, their appeal marketwise stems from different sources. Campbell is the top gold producer in the young and growing Red Lake sector of western Ontario. Its attraction rests on the possibility of its becoming a bigger and more profitable gold mine *in the future.* On the other hand, Dome, whose gold mine has long since reached maturity, is interesting principally for its diversification efforts. Besides owning 57 per cent of Campbell's common stock, Dome has a substantial stake in the Canadian oil and gas industry through investments in Dome Petroleum and Trans Mountain Oil Pipe Line. In addition, Dome owns 50,000 shares of Miami Copper and 40,000 shares of Kerr-Addison.

Hollinger Consolidated and **McIntyre Porcupine** provide two highly successful examples of the benefits of diversification. Originally these companies were important because of their gold production, and they still turn out substantial quantities of gold. Today, however, they are more important than ever, thanks to a policy of wise diversification. Hollinger owns a 17.72 per cent interest in the Iron Ore Co. of Canada, a giant iron ore producer supplying this steel-making material to five large American steel companies, which together own a majority interest in the enterprise.

McIntyre has diversified through the investment company route, and has holdings ranging from 10,000 to 56,000 shares each in such companies as Aluminium, American Metal, Standard Oil of New Jersey and Steel Co. of Canada. Even larger investments are 400,000 shares of Algoma Steel, 200,000 Amerada and 183,000 International Nickel. McIntyre also owns 400,000 shares of Ventures Limited and has options to buy 500,000 additional shares of Ventures within the next two years.

Raising the Gold Price

Recently there has been more than the usual amount of speculation on the possibility of the U.S. Government raising the price it pays for gold. This time the speculation, instead of producing only talk, has resulted in a small amount of action. For example, the intention of American-South African Investment

Co. to hold up to 25 per cent of its assets in gold, which does not earn anything and pays no return, must be considered to be based on the hope that the value of this "inventory" will some day rise due to an increased gold price. In Canada, the Bank of Nova Scotia is selling gold bars to anyone who wishes to buy them, and stores the bars for safekeeping in its vaults. A Toronto broker even proposes to sell gold bars on a 3% margin basis.

These developments reflect a change in psychology over the past year or so, as a result of which more people now apparently believe that a price increase may be in the making.

Actually, under anything resembling present conditions, it does not seem likely that the U.S. would bring about a worldwide price increase for gold by paying more than it now does for the precious metal.

The Gold Price Situation

Largely responsible for the growth of the price rise psychology has been the steady decline in the Treasury's gold holdings, which now amounts to more than a $2 billion drop this year. In turn, the loss of gold reserves is, to an important extent, due to a less favorable balance of trade and very low interest rates on short-term Treasury obligations earlier this year. Those conditions caused a flow of money out of the country, and foreigners took some of their payments in gold.

Whether the outflow of gold has been purely recession-induced or whether it represents something more serious probably will not really be answered for several months. By then, the effects of the current economic recovery will be more clear, and if gold is drawn back into this country in conjunction with the higher interest rates now prevailing and a possible improvement in the balance of trade, once more the proponents of a hike in the gold price will have gone down to defeat.

Another element in the gold price situation is the alleged decline of confidence in the American dollar. This also may be merely temporary, a product of the recession, and the test will be the extent by which confidence in the dollar returns as the business recovery moves forward. It cannot be denied, though, that inflation has proceeded at a faster pace in the U.S. than in other important industrial countries during the past several years. We continue to raise wages and prices in roughly equal proportions and more or less automatically whenever the time comes to negotiate a new labor contract. What is gained thereby in numbers of dollars is lost in buying power, leaving us just about where we started from the domestic point of view.

Those who hold American dollars in foreign nations, though, gain nothing and lose purchasing power. In view of the possibility that a strong inflationary wage-price spiral may revive in a year or two if the economic recovery builds up momentum, it would not be surprising if people in other countries should choose gold over dollars as the most stable medium for preserving the value of their assets.

Nevertheless, any weakening of confidence which has occurred with respect to the dollar would have to grow far more severe before this country would formally devalue the dollar or raise the price of gold, which would have the same effect as devaluation. While speculation on a higher price for gold will undoubtedly continue, the best investment results in gold stocks still seem likely to go to those who pay close attention to the usual, if less glamorous, factors such as earnings, dividends, increases in reserves and production rates, and progress in diversification. END

ALASKA
Treasure trove of natural wealth

(Continued from page 292)

in the Panhandle region. Numerous deposits have been located, but all of too low grade to be shipped without concentration—a process that would require large amounts of low-cost elctric power. Because of its proximity to the United States, the minerally rich Alaskan Panhandle is likely one day to develop a sizeable elctro-metallurgical industry once the tremendous hydroelectric potential of Alaska is harnessed.

Fishing Industry in Doldrums

Fishing is Alaska's largest private industry, and also it's least dynamic. In fact, the annual fish catch has declined steadily to about half the prewar high. This has been due chiefly to reduced salmon runs, the reasons for which are not completely known. Netting of immature salmon in the far Pacific waters by the Japanese and the use of traps by U.S. salmon canners are both blamed. Following international discussions, the Japanese fishing fleet moved further south this past season, and the new Alaskan legislature is expected to outlaw fish traps in coastal waters.

There is a great potential for development of Alaska's other fishery resources. Varieties other than salmon have been neglected, especially bottom fish. Until recently little interest was shown in such marine resources as Alaskan king crab, shrimp, oysters, and clams. With better packing and distribution methods, a considerable expansion of the domestic market could take place. Almost completely overlooked are possibilities for year-round processing of fish waste and non-marketable fish into fish oils, vitamins, animal feeds, and fertilizer. The latter two would help meet pressing local needs. Many opportunities exist for small-scale as well as large investment in this general field.

Alaskan Farming Unique

Farming in Alaska has unique aspects. It is the only place left in the United States where one can obtain 160 acres free from the public domain and homestead on it, acquiring title after three years of cultivation. But clearing virgin land is a tedious job, and farming in Alaska is quite different from the U.S. The growing season is short (3 to 4 months), but intense (with sunlight 20 hours a day in mid-summer).

Alaska, with 210,000 people, must import 95% of its food supply. Yet some experts say it could grow half of the food needs for one million inhabitants. There are hundreds of thousands of acres of lush grasslands waiting to graze cattle when slaughter houses, cold storage plants, and roads exist. There are vast areas of potential farmland being cleared at the slow rate of 1,000 acres annually. And scientists are working to develop quick-maturing plant varieties suitable to the region. What is needed most is help in land clearing, farm credit, better marketing and storage facilities, and a speeded-up flow of information.

Tourism Also Booming

Alaskan tourism is another industry with a strong growth po-

tential. Statehood has stimulated public interest and brought invaluable publicity. Tourist earnings for 1958 are estimated at nearly $50 million, as compared with about $30 million the year before. Many believe they will soon be doubled. The attractions are unequalled on the North American continent—the towering Mount McKinley, living volcanoes, frozen glaciers, the midnight sun, totem poles, and the scenic inland passage.

Opening of the Alcan Highway to unrestricted travel and surfacing of the Canadian portion, now in progress, are bringing increasing motor traffic. To encourage building of resort hotels, the Alaskan government has included them in its 10-year tax abatement program designed to foster the influx of new industries. Increasing jet-age use of the trans-polar air route as a shortcut between Europe and Japan or the U.S. West Coast will make Alaska a vital fueling station for thirsty planes and a possible stop-over for tired air travelers.

Outstanding Strategic Importance of Alaska

In the January 3rd issue, Part II will cover the unique character of Alaska's strategic position geographically—and its importance as the great storehouse of essential raw materials. END

Enterprises With Growth Achieved Internally

(Continued from page 305)

this uptrend well into 1959. Net profit rose to $2.56 a share from $2.31 in the corresponding period of 1957. Dividends have held at the $2 annual rate for the last two years. While this stock deserves consideration, it scarcely can be considered undervalued.

Pitney-Bowes, Inc., one of the pioneers in development of rental postage meters and other labor-saving office appliances, has solidified its competitive position through research and development of electronically operated equipment offering substantial economies in time and labor. Revenues have experienced consistent growth in recent years in reflecting the need for economies in offices. Sales have been well maintained this year and earnings have registered progress. Net profit rose in the first nine months to $2.29 a share from $2.19 in the same period last year. Prospects for 1959 are considered promising. The stock has climbed to a record high in anticipation of a stock split. It seems fully appraised at the moment.

Sunbeam Corporation, a leading producer of electrical appliances having a potentially large market among consumers, has achieved growth primarily through development of useful articles in a comparatively modest price range and through aggressive promotional activities. Most popular items include electric shavers, frypans, automatic toasters, electric percolators, irons, power lawn mowers, Mixmaster and other products marketed under special trade names. Manufacturing operations are concentrated in and around Chicago. Subsidiaries are operated in several foreign countries. Sales have expanded impressively in recent years in response to rising consumer income and to vigorous promotional efforts. Reflecting slower demand due to unfavorable business conditions, sales fell in the first six months of the current fiscal year to $43.4 million from $59.4 million, while earnings dipped to 91 cents from $1.31 a share a year ago. The regular $1.40 annual dividend has been supplemented by an extra of 25 cents a share. The stock, offers a meager return, looking to 1959.

Trane Company is one of the lesser known, aggressively managed representatives of the heating and air-conditioning field. Products include various types of refrigeration equipment, convectors, fans, etc. No room air-conditioning units are made, but rather larger installations are favored, especially in connection with heating equipment. Sales have mounted steadily as new markets have opened. Volume this year has registered a small gain over the same period a year ago, with net profit for the first nine months coming to $1.91 a share, compared with $1.94 for the corresponding period of 1957. The stock has rebounded from the low point of a year ago and no longer seems especially undervalued.

Zenith Radio Corporation, a recognized leader in electronics, especially in development of television "firsts," and a dynamic market performer lately, has pioneered the pay-TV idea and has contributed importantly to progress in popularizing hearing aids for the deaf. Settlement of protracted litigation over patents with Radio Corporation and others resulted in a substantial cash award. Sales have expanded steadily in recent years (with the exception of 1954). Earnings rose in the first nine months this year to $6.64 a share from $4.96 in the same period of 1957, adjusted for a 2-for-1 stock split effected last March. Dividends are being paid currently at the rate of 50 cents quarterly, but management has approved large cash extras from time to time. The shares now appear overvalued even allowing for the strong financial position. *END*

The Interesting Land and Royalty Companies

(Continued from page 295)

differs in several important respects from the other two companies. In the first place, both Louisiana Land and Southland have substantial working interest production in addition to their royalties, while Kern is in the early stages of setting up its own production department. Thus, in terms of our earlier definition, Kern still is essentially a "pure" royalty company. Secondly, in contrast to the other companies, Kern owns extensive and valuable real estate south and west of the town of Bakersfield in Southern California. The Company's Stockdale Project consists of 6,000 acres located to the southwest of Bakersfield and was drawn up under a master plan designed by the prominent architectural firm of Skidmore, Owings and Merrill. Plans call for the development of a complete city, with an industrial area, an office building, and residential sites. As the land is considered highly promising for oil, the plan also provides for drilling islands scattered throughout the project. Bakersfield is a

rapidly growing city with roughly 2,000 homes added per year. The land to the east of Bakersfield is largely high and arid, thus limiting population growth in that direction. For this reason, the City's future growth to a large extent is funneled on to Kern's property. Kern should receive substantial capital gains and development profits over the suceeding years from Stockdale. In addition to Stockdale, Kern owns roughly 120,000 level irrigated acres in Kern County well-located for future residential and industrial development. This property is probably now worth $500-$1,200 per acre as farm land and currently a major portion is being leased to farmers on a share crop basis.

In evaluating the fundamental investment characteristics of our three royalty companies, some comment should be made with regard to their current and potential earning power. Louisiana Land should earn in the neghborhood of $2.00 per share in 1958. This figure gives no reflection to gas sales from the Company's substantial reserves at Bastian Bay which are not expected to begin before late 1959. Nor does it include earnings from possible sales of natural gas from uncommitted reserves at Dog Lake and Lake Barre. Southland should earn on the order of $4.50 this year, and if Texas allowables increase next year as is anticipated, earnings in 1959 should approach the $5.00 level. These figures give no consideration to a substantial but indeterminate amount of additional reserves which will accrue to Southland 17 years from now when a large portion of the lands leased by Gulf from the Company revert back to Southland. These lands originally were leased to Gulf for a fixed term of 50 years regardless of the status of production at the end of the term. Gulf probably still has several thousand development wells to drill on these properties and with restricted allowables, there is little chance of depleting reserves by 1975.

Like both Louisiana Land and Southland, Kern's current earnings do not reflect the Company's long term earnings potential. It is anticipated that the Company's rather flat earnings trend over the past five years will be reversed in the near future, not only as a result of Richfield's important new discoveries, but also from real estate sales and large shut-in gas reserves which should find a market in the early 1960's, if not sooner.

The above comments are designed to point up the general attractiveness of the well situated royalty company as a long term growth investment. While emphasis in this article has been largely on rational investment considerations, it is hoped that the reader will not entirely disregard the more romantic aspects of the land company. END

Another Headache for . . . The Airlines

(Continued from page 302)

Board in 1934. It is known as Decision 83 and still has a strong influence today. It provides a floor on rates that must be paid to pilots. It also perpetuates pay factors and working-time limitations based on a period when relatively primitive flying conditions prevailed and pilots were deemed to have but a short productive life in the air.

The fact is, however, that the productive life of a pilot is not less than that for the average professional man. One major airline recently took an inventory of its pilot list. It found that 80% of the pilots employed by it in 1937 are still on the payroll. Six of them are over 60 years of age. As a matter of fact, many of the pilots who will fly the new jets will be between 40 and 55 years of age.

The professional risk calculators who make up life insurance rates have established the same insurance premium for airline pilots as applies to house painters. It is also significant in this respect that according to National Safety Council statistics, it is many times safer today to fly by commercial airliners than to travel by automobile. END

For Profit and Income

(Continued from page 307)

Electric, Food Giant Markets, Food Machinery, General Finance, Glidden, Middle South Utilities, Motorola, National Airlines, Norwich, Penney, Pennsalt, Philip Morris, Pittston, Revlon, Sangamo, Southern Co., Texas Utilities, United Artists.

Laggards

Stocks performing worse than average at this writing include: Allied Chemical, Allied Mills, Alpha Portland Cement, Aluminium, Alcoa, Amerada, American Smelting, Anaconda, Boeing, Champion Paper, Chemetron, Chrysler, du Pont, Eastern Air Lines, Halliburton, International Nickel, International Paper, Kennecott, National Acme, Pittsburgh Plate Glass, Reliance Mfg., Socony Mobil, Sun Oil, Swift, Tidewater Oil, United Aircraft, United Fruit and Vanadium.

Pretty Good

Armstrong Cork makes a wide line of floor and wall coverings, sheathing and insulating materials, sound-deadening materials, bottles, closures and other items. Relative to total property account, outlays for expansion and modernization have been very heavy in recent years. They have evidently begun to pay off. Profit showed a year-to-year gain of nearly 15% in the first 9 months of 1958. Full-year net should easily exceed 1957's $2.10 a share. It may be well over $3, a new peak, in 1959. Now at a $1.40 total, dividends could go to around $1.60. The past record has been no better than fair; but, on a relative basis in this market, the stock seems reasonably priced at 34, yielding 4.1%, with an apparent appreciation potential around 20% or more in 1959.

Drugs

We have held previously that price-earnings ratios of leading drug stocks should get up into line with those of chemicals, as justified by growth potentials. They have now done so in large measure. A number of issues are selling at 20 to 30 times likely 1958 earnings. Selected issues are good holdings; and profit takers might not be able to buy back to advantage. That is always a risky operation in favored stocks—but

(Please turn to page 322)

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In June we launched a new investment campaign with recommendations of one aviation stock and two rails. These three stocks have since advanced 33⅝ points to score appreciation of 30.3%, outstripping the rise in the general market. We expect further good profits in these issues.

But quite aside from these profitable selections, some of the stocks in our open position since the start of 1958 have been *outstanding performers.* For example, our Reynolds Tobacco B, which we advised all subscribers to buy last year at 55⅝, has recently topped 90 and boosted the dividend.

American Chicle which we recommended at 43¾ reached 107 after announcement November 5th, of proposed 2-for-1 stock split plus the increased extra dividend.

International Telephone & Telegraph is now 60¾ and a 2-for-1 stock split was proposed December 12. This stock closed 1957 at 29⅜, so it has advanced over 85% this year.

Among other Forecast stocks whose appreciation in 1958 has been more than double that of the market is Southern Railway which began the year at 30½ and recently hit a high of 55, also up 83%.

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new buyers of drug stocks could certainly fare less well over the next year or two than they seem to be counting on.

Tires

Profit growth of the tire and rubber companies in recent years has been fair but by no means outstanding. The same goes for 1959 and longer-range prospects, so far as we can see. These issues have "gone to town" in the recent market, especially Firestone and Goodyear. The whole group looks amply priced, if not overpriced. END

Answers to Inquiries

(Continued from page 314)

Eastman Kodak is very active in research and has developed new products in its various lines that offer good promise of increasing sales and income.

Eastman Kodak recently voted the regular 65 cent quarterly dividend on the common stock and a 25 cent extra, the same extra as authorized a year ago. This brings 1958 dividend declarations to $2.85, against $2.70 in 1957.

Automatic Canteen Co. of America

"As a subscriber to your magazine I would apreciate receiving late data on Automatic Canteen Co. of America."

M. J., Tallahassee, Florida

Automatic Canteen Co. of America operates vending machines dispensing cigarettes, confections, gum, nuts and beverages in plant and public places.

Automatic Canteen Co. of America reported estimated net earnings of $3,300,000, or $1.60 per common share, on sales and operating income of $117,500,000 for the fiscal year ended September 27, 1958. This compares with 1957 net income of $2,952,576, equivalent to $1.51 per share (restated to give effect to the 100% stock distribution of early this year). Sales and operating income represent a 4% increase over last year's total of $112,889,096. While 1958 figures are subject to final audit adjustment, the company expects that they will remain substantially correct. Net earnings for 1958 include a refund of Federal income taxes on excess profits for the years 1944 through 1946, inclusive, in the amount of $170,597.

According to the president of the company, it was evident during the business recession of the past year that retail sales through vending machines do not suffer during adverse periods to the extent that other parts of the economy do. The company's manufacturing facility, which was acquired three years ago when it merged with the Rowe Corp., had a banner year. This resulted from physical improvements, instituted since the merger, in layout and production methods at the Rowe factory, coupled with research and development carried out by the combined engineering staffs of Automatic Canteen and Rowe, and the operating know-how of Canteen and its distributing organization. The company now produces a full line of vending machines.

The company is looking forward to even a bigger and better year in fiscal 1959 if economic conditions continue to improve, as generally predicted. In the past two fiscal years the company has placed a record amount of new larger capacity vending machines on locations throughout its operating organization and this should be reflected in increased sales and profit in time.

Cash dividends of 90 cents per share plus 5% stock have been paid this year.

California Electric Power

"I am a widow 70 years of age and am dependent on income from securities. Please furnish late operating record of California Electric Power."

H. E., Riverside, California

California Electric Power serves parts of southwestern California and southwestern Nevada and subsidiaries operate in northwestern Mexico., This region is experiencing good population and industrial growth. The stock yields fair a fair return on its 80 cent annual dividend.

Net earnings of California Electric Power for the September quarter of 1958 were equal to 45 cents a common share compared with 36 cents in the identical 1957 period, based both on the 3,500,000 common shares outstanding at the end of each period and on the average shares outstanding during each quarter. For the year ended September 30, 1958. earnings were equal to $1.09 a share on outstanding common stock compared with $1.09 a share for the prior year. Based on average common shares outstanding during each annual period, earnings for the latest 12 months were $1.09 a share against $1.14.

During the September quarter of 1958 electric revenues were 17% above the corresponding 1957 period. This was due both to a growth in kilowatt hour sales and to the general increase in electric rates which became effective in May 1958. Continued load growth on the company's system, especially north of the San Bernardino Mountains has led to a decision to begin construction of the first 60,000 KW unit of a steam electric generating plant at Daggett which will be called Cool Water Steam Plant. Water bearing land was purchased in 1956 and commitments were made for purchase of major equipment items in order to minimize escalation costs with respect to prices then in effect. It was then anticipated that the plant would be completed in 1960, but construction was postponed because adequate sources of power were available. It is now expected load requirements will increase so that the plant will be needed early in 1961, the date it is now scheduled for completion.

The company stated early in November that it has plans for the private sale of 120,000 shares of a new series of cumulative preferred stock at par of $50 a share. The sale is to be made to a group of institutional investors, subject to the completion of negotiations and approval by applicable regulatory bodies. If the securities are sold, the proceeds will be applied to bank loans then outstanding.

Revenues are expected to increase in coming years in line with the expected growth of population and industry. END

Trend of Events

(Continued from page 271)

committees should be organized in every city and hamlet, with voices loud enough to oblige Congress in early 1959 to produce the legislation so sorely needed to put labor unions in their proper place in relation to the rest of the country, and in relation to taxes. END

Helping You to ATTAIN and RETAIN

FINANCIAL INDEPENDENCE

(Important – To Investors With $100,000 or More!)

Most investors are aiming for financial independence . . . whether they hope to arrive at their goal in five, ten or twenty years.

We concur in their confidence that wise and timely investment of their capital can make this dream a reality . . . for despite temporary readjustments our nation is forging ahead in a new era of amazing scientific achievement, industrial advancement and investment opportunity.

In 1959 and the coming years, we will see marvelous and practical progress in the conquest of space, in attainment of plant automation, in harnessing of atomic energy . . . with a host of new products, materials and techniques emerging.

These new forces will have profound investment significance for they will invigorate many companies—but often at the expense of less able competitors. TO YOU, as an investor, this adds up to an increased need for continuing investment research and capable professional counsel.

Expert Analysis of Your Present Holdings:

Our first step in serving you is to make a detailed report—analyzing your entire list—taking into consideration income, safety, diversification, enhancement probabilities—today's factors and tomorrow's outlook.

Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account . . . advising retention of those most attractive for income and growth . . . preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1959 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. It is never necessary for you to consult us.

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

Complete Consultation Privileges:

You can consult us on any special investment problem you may face. Our contacts and original research sometimes offer you aid not obtainable elsewhere—to help you to save—to make money.

Help in Minimizing Your Taxes:

We keep in mind the tax consequences of each transaction and help you to minimize your tax liability under the new tax provisions. (Our annual fee is allowed as a deduction from your income for Federal Income Tax purposes, considerably reducing the net cost to you.)

Annual Personal Progress Reports:

Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

Full information on Investment Management Service is yours for the asking. Our rates are based on the present value of securities and cash to be supervised—so if you will let us know the present worth of your account—or send us a list of your holdings for evaluation—we shall be glad to quote an exact annual fee . . . and to answer any questions as to how our counsel can benefit you.

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